



Novolipetsk Steel (NLMK)

Morgan Stanley Metals & Mining Conference



Moscow, September 2006

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Agenda

- Introduction: NLMK today
- Performance: FY05 and 1H06
- Strategy
- Outlook
- Q&A



NLMK highlights

● **Leading Russian steel producer**

- ▶ Among the world's most profitable steel companies with sales revenue of USD 4.5 bln and EBITDA margin of 47% in 2005
- ▶ Solid financial performance through the steel cycle with mid-cycle margins above 40%

● **A unique vertically integrated company**

- ▶ World class steel assets producing a broad range of high value-added products
- ▶ Mining assets integration ensures self-sufficiency in basic raw materials, iron ore and coking coal

● **Proven track record of business development in Russia and abroad**

- ▶ Disciplined approach towards M&A based on demanding efficiency and synergy targets
- ▶ Strong balance sheet and cash generation provide a platform for strategic M&A opportunities
- ▶ Implementation of the downstream growth strategy with an aim of further development of high value-added products

● **Committed to best practices in corporate governance**

- ▶ Among the first in Russia to introduce US GAAP financial reporting in 1998
- ▶ Currently 4 independent directors out of 9 on the Board



NLMK locations



- ◆ NLMK's major companies
- newly acquired assets



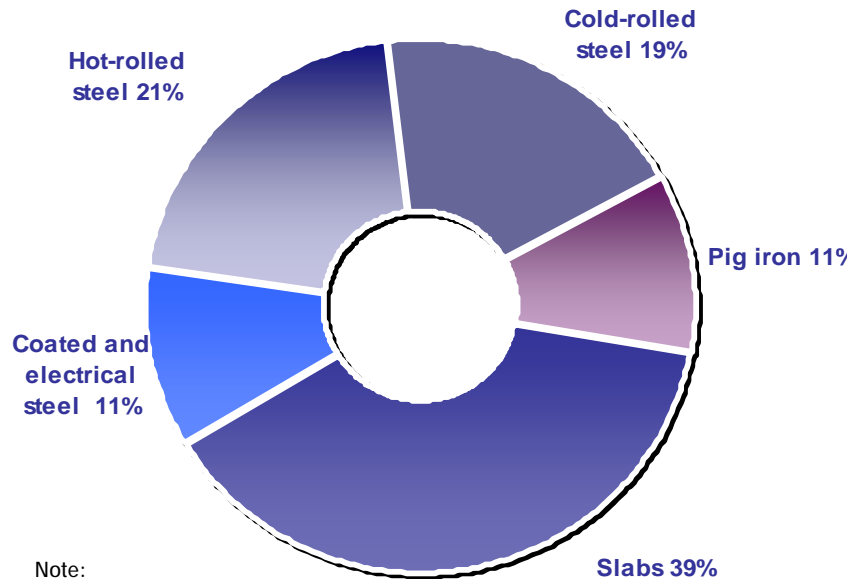
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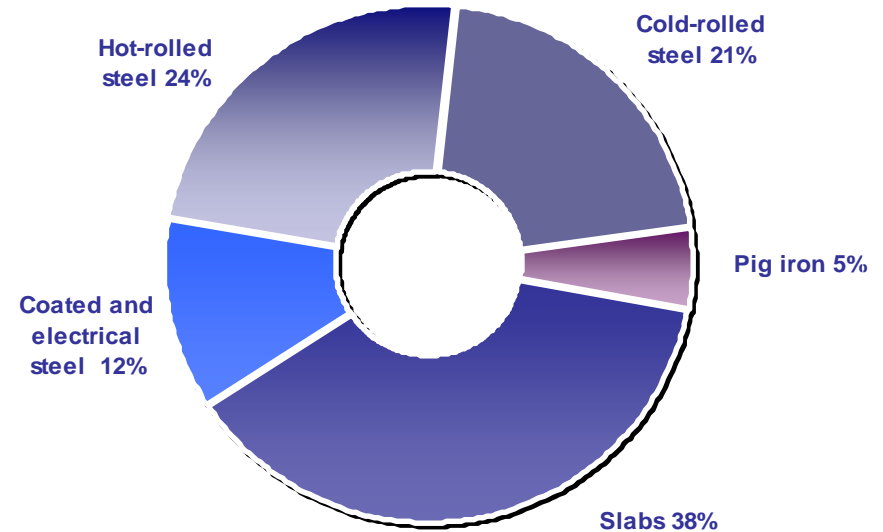
Product range

2004¹



Note:
1 Tonnage-wise distribution

2005¹



Global market	Rank	Market share
---------------	------	--------------

Slabs	#1-2	11%
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- **Leading Russian steel producer with a well-diversified product portfolio**

Domestic market	Rank	Market share
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Hot-rolled steel	#3	9%
Cold-rolled steel	#1	39%
Electrical steel	#1	50%
Coated steel		
- prepainted	#1	31%
- galvanized	#3	14%



Strong financial performance

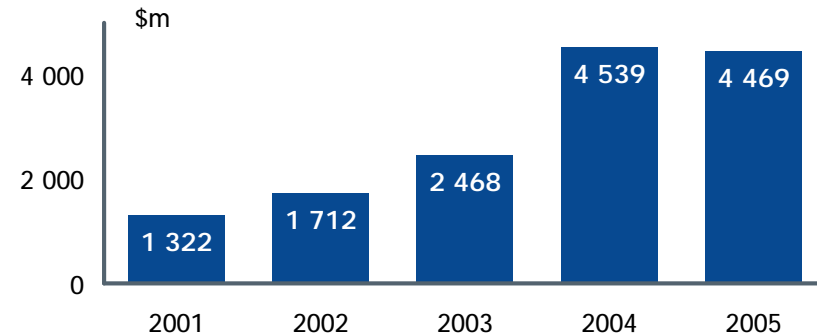
2005 Results

- Sales revenue of USD 4.5 bln
- EBITDA of USD 2.1 bln with 47% margin
- Operating cash flow of USD 1.5 billion
- ROE of 29%

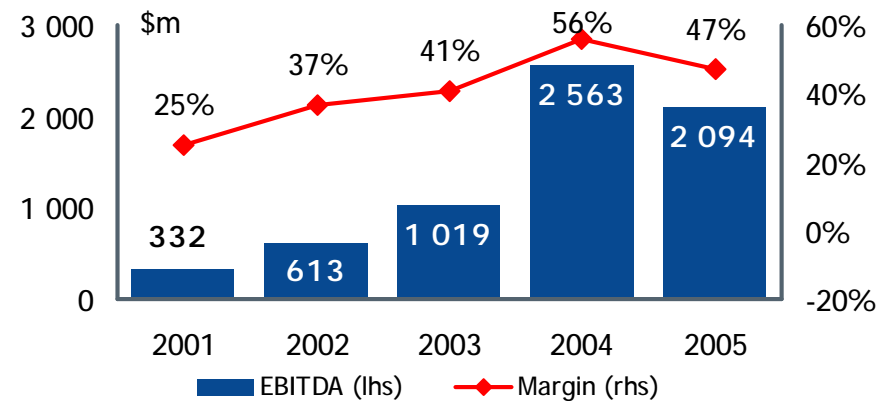
2006 Outlook

- Upward trend in steel market in Q2 2006
- Sales revenue 10-15% higher than in 2005

Sales revenue



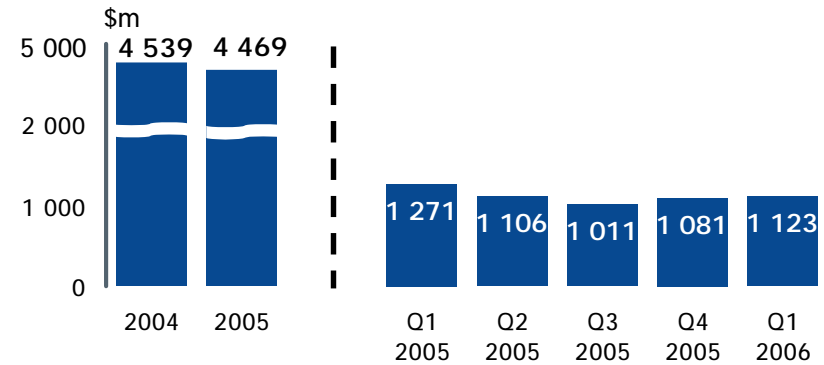
EBITDA



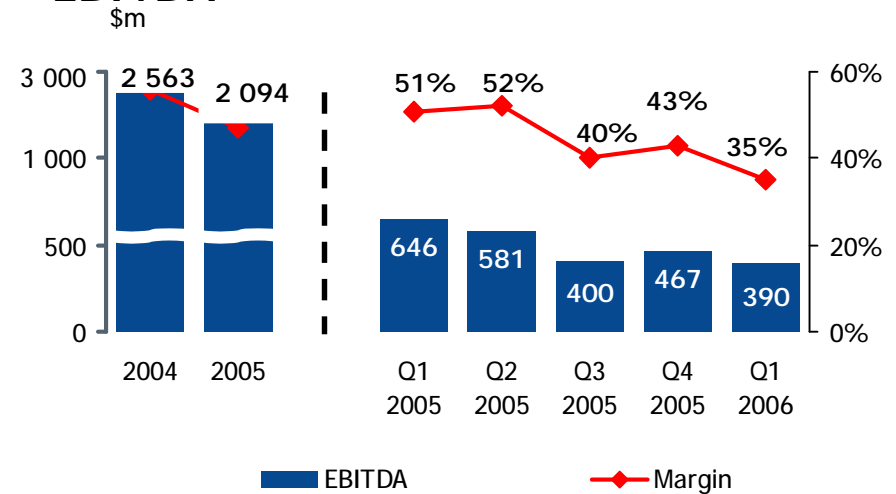
Q1 2006 financial performance

- Sales revenue of USD 1.1 bln (+4% QoQ)
- EBITDA of USD 390 mln (-18% QoQ), margin of 35% on the back of consolidation of DanSteel A/S
- Net income of USD 546 mln
- Operating cash flow of USD 159 mln
- ROE of 40%

Sales revenue¹



EBITDA¹



¹ without considering DanSteel A/S consolidation in December 2005

Q2 2006 results update

- We are expecting Q2 2006 financial results improvement due to the substantial recovery of steel prices and stringent cost management.
- Crude steel production of 2.3 mln tonnes (+21% QoQ)
- Iron ore concentrate production of 3.3 mln tonnes (+20% QoQ). The consolidation of KMAruda and production growth at Stoilensky GOK have contributed to the increase.
- Further development of high value-added product portfolio including 12% increase in production of hot dip galvanized steel compared to Q1 2006
- HRC and CRC prices are up nearly 20% compared to Q1 2006
- Iron ore concentrate and coking coal prices are slightly up compared to Q1 2006



Strong financial position of NLMK

- Cash position of USD 2.3 bln (Q1 2006) provides flexibility for large scale financing:

- ▶ **Technical Upgrade Program:**

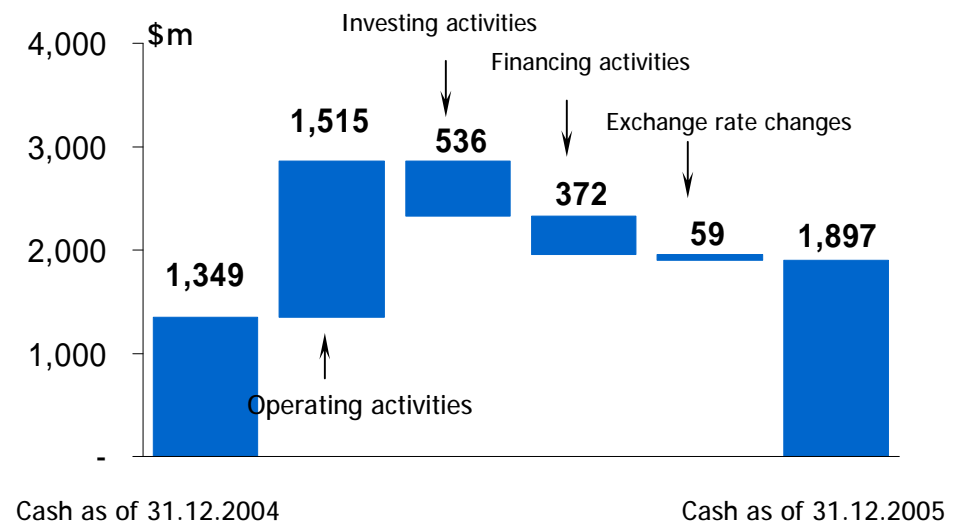
over USD 500 mln in 2006

- ▶ **M&A:** acquisition of Altai-koks and Prokopievskugol (USD 650 mln), DanSteel A/S (USD 104 mln) and VIZ Stal (USD 550 mln)

- ▶ **Dividends payments:**

USD 427 mln announced as a H2 2005 dividend

2005 cashflow bridge



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Strategic highlights



- Growth based on 'profit before volume' approach
 - ▶ Self-sufficiency in raw materials to be maintained
 - ▶ Synergy-based international expansion
- Margin enhancement through downstream expansion and technological improvements
- Technical upgrading program: Phase 2 started
- Optimization of group management structure
- Low cost steel production base is a strong platform for sustainable growth of high value-added segment production



2006 acquisitions: Upstream

● Coke and coal: Altai-koks and Prokopievskugol

- ▶ In April 2006 NLMK acquired 82% interest in Altai-koks coking plant and 100% interest in Prokopievskugol coal mining company for USD 650 mln. Additional 8% Altai-koks purchased on open market
- ▶ **Altai-koks** is the leading Russian coke-chemical plant producing high-quality coke. Production of coke in 2005 amounted to 3.8 mln tonnes and is expected to reach 5 mln tonnes by 2007
- ▶ **Prokopievskugol** is a high-grade coking coal mining and processing company. Prokopievskugol owns seven mines and three processing plants producing 5 mln tonnes of coal per year including 3 mln tonnes of coking coal concentrate



● Iron ore: KMA Ruda

- ▶ In August 2006, NLMK announced a divestment of earlier consolidated 92% stake in KMA Ruda. The agreed price is USD 300 mln. The proceeds from the divestment are invested into the development program of the core iron ore asset, Stoilensky GOK.



2006 acquisitions: Downstream

● DanSteel A/S

- ▶ In January 2006 NLMK acquired 100% stake of DanSteel A/S, a Danish plate maker with a capacity of 0.5 mln tonnes, for USD 104 mln
- ▶ NLMK is a supplier of slabs to DanSteel from 2002



● VIZ stal

- ▶ In August 2006 NLMK completed an acquisition of a 100% stake of VIZ Stal, a Russian electrical steel producer with an annual capacity of 0.2 mln tonnes, for USD 550 mln
- ▶ As a result NLMK will become #1 in Russia and among top three global electrical steel producers with a world market share of 20%
- ▶ VIZ Stal expected H1 2006 revenue is USD 250 mln; EBITDA margin is over 50%
- ▶ NLMK is a supplier of HRC to VIZ Stal



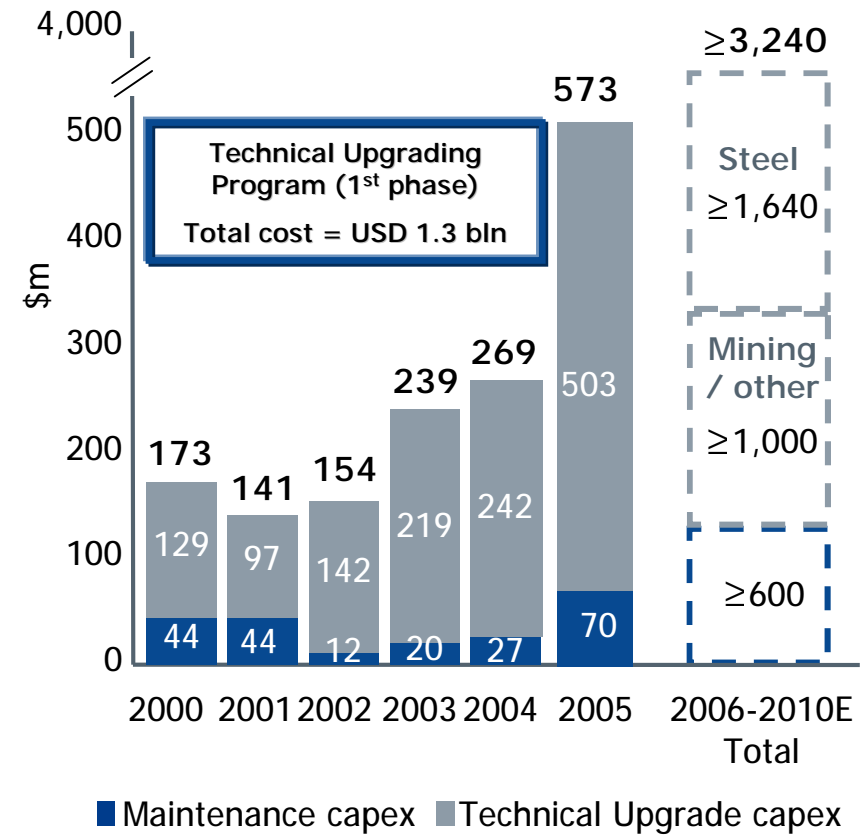
Capex programme

● Technical upgrade program 2006-10

main objectives:

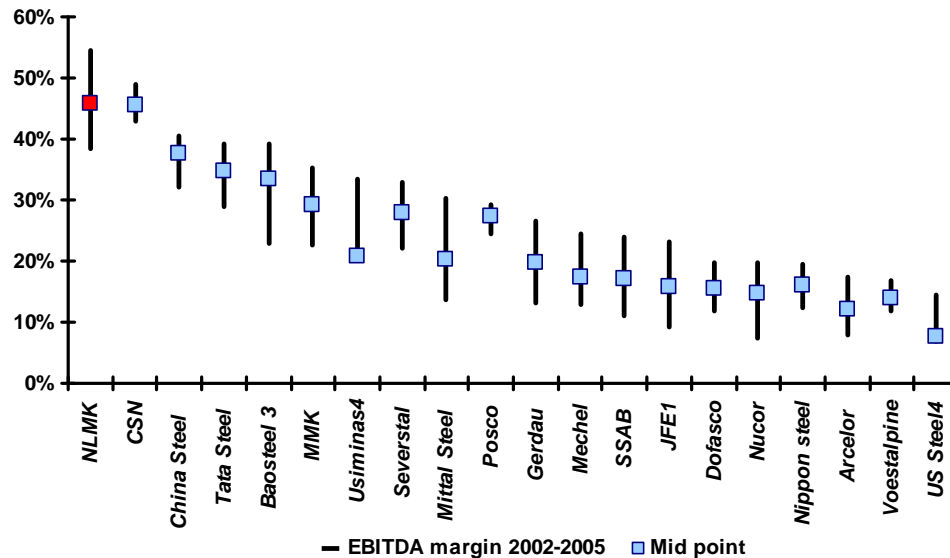
- ▶ Increase crude steel capacity
- ▶ Enhance high value-added products range
- ▶ Cut costs by reducing consumption of raw materials and energy
- ▶ Improve quality management system
- ▶ Strengthen focus on environmental and safety improvements

Capex

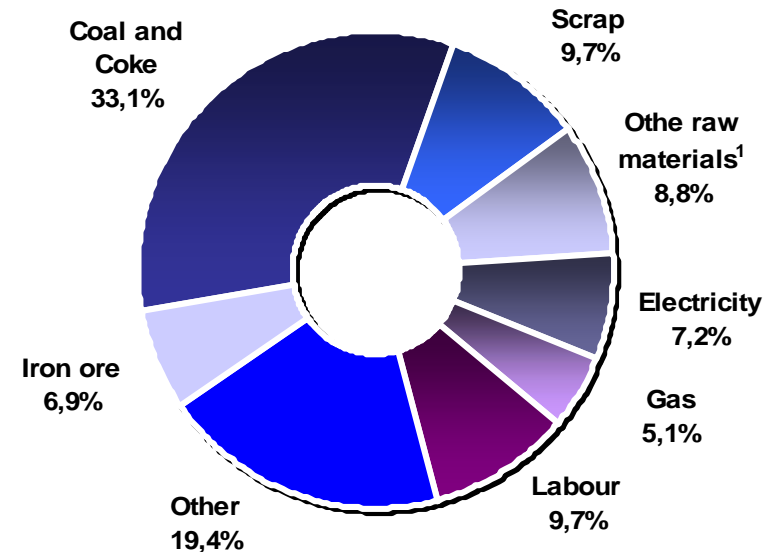


Leveraging sustainable low production cost base

Peak-through EBITDA margins 2002 – 2005²



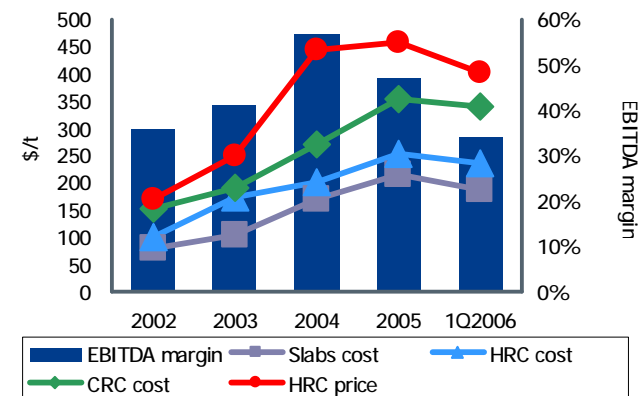
Q1 2006 consolidated cash cost breakdown



Consolidated cost of slabs \$159/t

- Low cost production structure is NLMK's core competitive advantage
- Q1 06/H2 05 slab cash cost 5% down
- Potential for further cost reduction

Effective cost control



Note:

- 1 Other raw materials include limestone, etc.
- 2 Company estimates

2006 Internal Restructuring Plan

- NLMK announced internal restructuring plan aimed at optimizing its asset portfolio, strengthening vertical integration and building up efficient management structure
- NLMK has implemented divisional management structure based on value chain business processes:
 - ▶ Steel, Iron Ore, Coal and Sales divisions are created
 - ▶ 2006 AGM elected President of NLMK
 - ▶ Board of Directors approved Management Board members at the group level
- NLMK continues the effort of further consolidation of its core assets comprising steel, mining and supporting businesses and divestment of stakes in non-core assets, including financial and transportation assets
 - ▶ Divestment of interest in Lebedinsky GOK
 - ▶ KMA Ruda divestment



International strategy: why expand abroad?

- To take advantage of our strong and scalable crude steel production platform and proximity to our core markets through downstream acquisitions
- To enhance margins through further development of high value-added products
- To strengthen company's ability to adjust to global industry consolidation trends on a timely basis
- To develop business relationship with global customers recognizing the growing importance of plant specialization and manufacturing excellence
- To enhance R&D capabilities utilizing modern technologies and facilities in developed markets



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Macroconditions for Growth



- **Improving global steel market conditions**
 - ▶ Continuing demand from the core markets (US, EU)
 - ▶ Significant improvement in pricing environment since May 2006
- **Improved domestic macro picture**
 - ▶ Russian GDP grew 6% in 2005. Solid current account and budget surplus. Stable rouble exchange rate and decreasing inflation
- **Favorable domestic market environment**
 - ▶ Growing competitiveness of Russian steel companies. Increasing investments in R&D and modern technologies
 - ▶ National projects targeting construction, automotive and military sectors provide long-term demand for flat steel products
 - ▶ WTO negotiations based on pragmatic approach



Long-term outlook



● Production

- ▶ We expect to increase steel production
- ▶ Steel production growth will be balanced by increase in raw materials production and rolling capacity
- ▶ We will pursue strategic acquisition opportunities focus on high quality downstream assets

● Profitability

- ▶ We expect to remain among the world's most profitable steel companies
- ▶ Increase in sales revenue from production volumes growth and new assets add-up
- ▶ NLMK will aim at highest EBITDA and profit margins





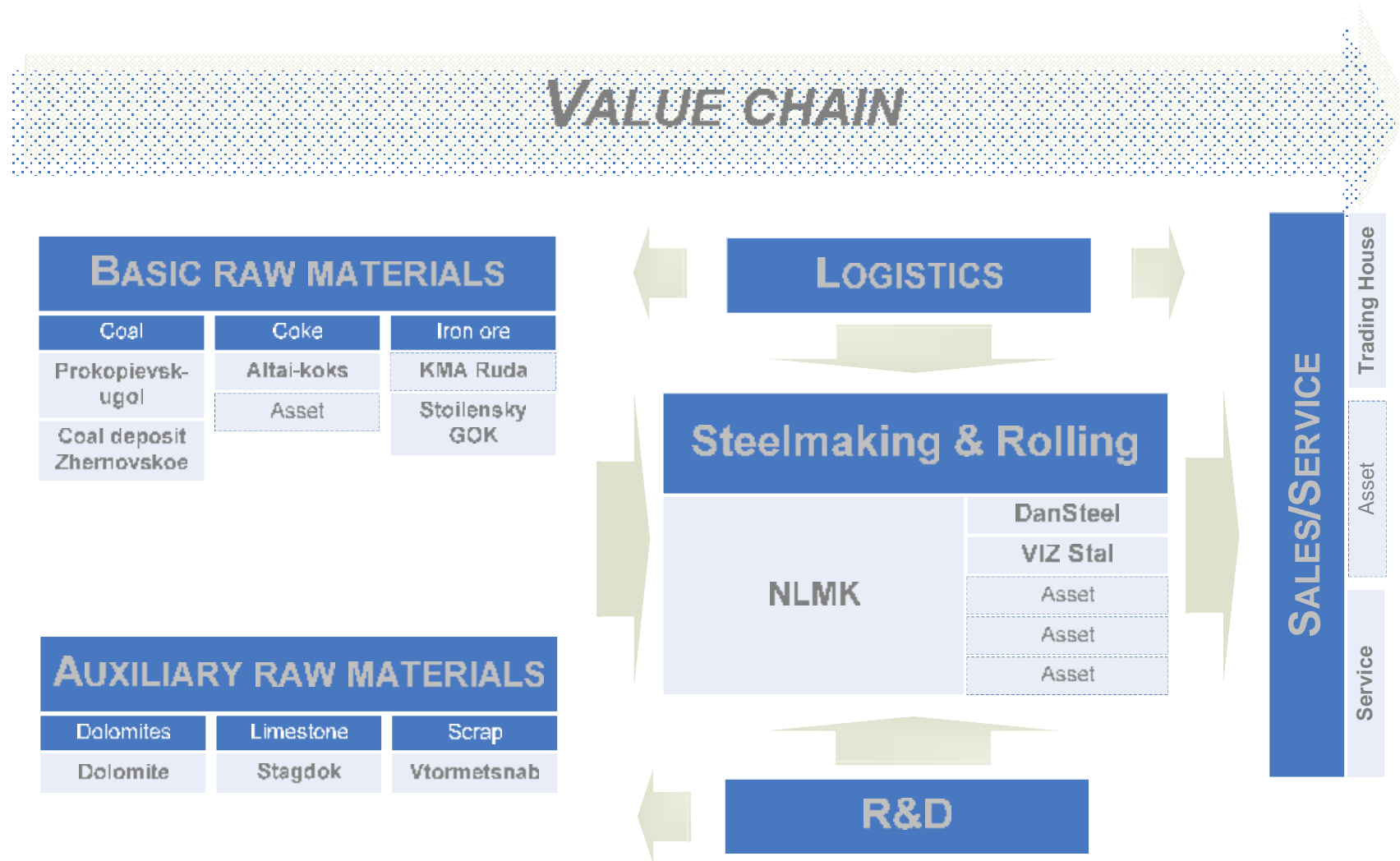
Novolipetsk Steel (NLMK)



Supplementary Materials



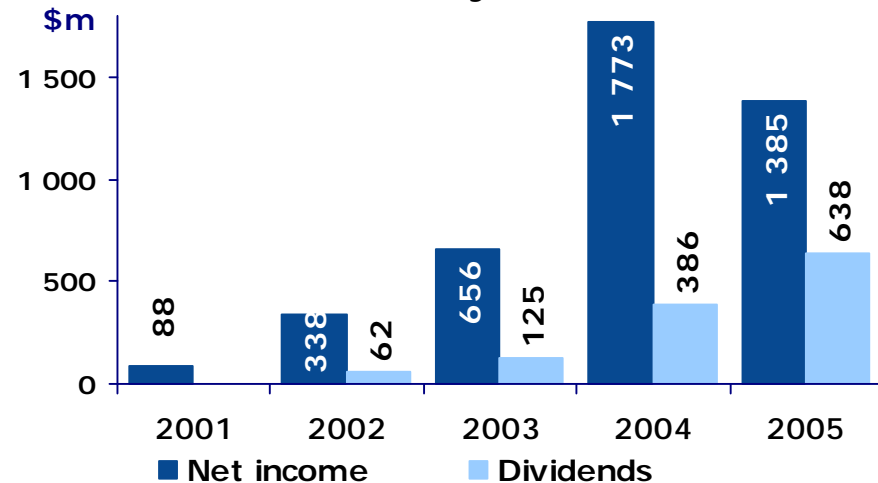
NLMK value chain



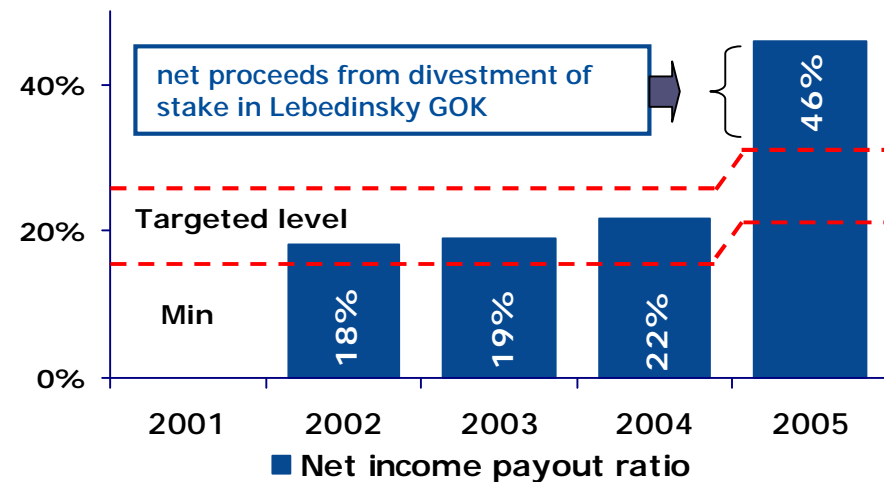
Dividend policy

- NLMK recently revised its dividend policy:
 - ▶ Increased minimum payout ratio from 15% to 20%
 - ▶ Target a 5 year average payout of 30% of annual US GAAP net income
 - ▶ Cash proceeds from non-core assets divestments will be returned to the shareholders
 - ▶ 2005 dividends already include USD 297 mln net proceeds from divestment of minority stake in Lebedinsky GOK in January 2006

Dividend history



Payout ratio



Consolidated balance sheet

(\$ thousand)	As of 31.12.2001	As of 31.12.2002	As of 31.12.2003	As of 31.12.2004	As of 31.12.2005
ASSETS					
Current assets					
Cash and cash equivalents	190 029	382 957	729 641	1 348 615	1 896 741
Short-term investments	-	44 487	180 797	21 153	27 040
Accounts receivable, net	240 020	266 199	377 746	588 562	660 054
Amounts due from employees, affiliates and other related parties	1 082	-	-	-	-
Inventories, net	180 030	210 628	301 303	475 303	501 556
Other current assets, net	5 529	32 242	63 336	148 748	208 920
Restricted cash	-	7 515	23 104	5 094	7 979
	616 690	944 028	1 675 927	2 587 475	3 302 290
Non-current assets					
Long-term investments, net	74 212	71 164	39 925	51 425	31 470
Property, plant and equipment, net	1 174 682	1 167 714	1 332 579	2 257 628	2 393 549
Intangible assets	-	-	-	21 594	16 655
Goodwill	997	-	-	179 815	173 357
Other non-current assets, net	29 659	16 080	36 834	67 984	133 747
	1 279 550	1 254 958	1 409 338	2 578 446	2 748 778
Total assets	1 896 240	2 198 986	3 085 265	5 165 921	6 051 068
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	92 367	-	-	-	-
Accounts payable and other liabilities	89 725	154 105	251 687	455 042	507 637
Amounts due to employees, affiliates and other related parties	18 510	-	-	-	-
Current income tax liability	10 266	17 106	23 032	78 638	40 639
Short-term capital lease liability	0	1 727	6 114	232	-
	210 868	172 938	280 833	533 912	548 276
Non-current liabilities					
Long-term borrowings	3 162	-	-	-	-
Long-term capital lease liability	0	2 468	11 563	313	-
Deferred income tax liability	19 780	15 523	159 716	305 472	294 337
Other long-term liabilities	0	3 988	6 593	19 946	61 675
	22 942	21 979	177 872	325 731	356 012
Total liabilities	233 810	194 917	458 705	859 643	904 288
Minority interest	10 407	12 891	16 652	85 787	92 576
Stockholders' equity					
Common stock	14 435	14 440	14 440	221 173	221 173
Statutory reserve	5	32	32	10 267	10 267
Additional paid-in capital	680	680	680	680	1 812
Other comprehensive income	2 986	3 723	27 672	242 387	71 899
Retained earnings	1 633 917	1 972 303	2 567 084	3 745 984	4 749 053
	1 652 023	1 991 178	2 609 908	4 220 491	5 054 204
Total liabilities and stockholders' equity	1 896 240	2 198 986	3 085 265	5 165 921	6 051 068



Consolidated statement of income

(\$ thousand)	2001	2002	2003	2004	2005
Sales revenue	1,322,431	1,711,657	2,468,022	4,538,686	4,468,726
Production cost	(888,947)	(950,058)	(1,293,330)	(1,888,702)	(2,118,111)
Depreciation and amortization	(159,688)	(146,327)	(157,809)	(243,656)	(283,622)
Gross profit	273,796	615,272	1,016,883	2,406,328	2,066,993
General, administrative expenses and selling expenses	(68,432)	(103,359)	(134,609)	(183,464)	(206,954)
General and administrative expenses	(21,136)	(37,655)	(69,524)	(92,517)	(107,867)
Selling expenses	(21,999)	(32,072)	(40,760)	(57,839)	(62,614)
Taxes other than income tax	(25,297)	(33,632)	(24,325)	(33,108)	(36,473)
Operating income	205,364	511,913	882,274	2,222,864	1,860,039
Other income / (expense)	(42,772)	(45,039)	(540)	141,138	46,204
Loss on disposals of property, plant and equipment	(15,600)	(8,895)	(7,949)	(12,231)	(11,812)
Gain / (loss) on investments	651	(2,675)	12,136	165,174	(1,523)
Interest income	6,315	10,832	26,289	37,773	83,781
Foreign currency exchange loss, net	(21,428)	(18,247)	(42,999)	(39,101)	(7,900)
Other expense	(12,710)	(26,054)	11,983	(10,477)	(16,342)
Income before income tax and minority interest	162,592	466,874	881,734	2,364,002	1,906,243
Income tax	(75,515)	(129,699)	(223,035)	(572,221)	(495,683)
Income before minority interest	87,077	337,175	658,699	1,791,781	1,410,560
Income from associates and subsidiaries					3,701
Minority interest	455	1,243	(2,243)	(19,280)	(28,925)
Net income	87,532	338,418	656,456	1,772,501	1,385,336
EBITDA	332,020	612,507	1,018,960	2,562,836	2,093,804



Consolidated cash flows

(\$ thousand)	2001	2002	2003	2004	2005
Cash flow from operating activities					
Net income	87,532	338,418	656,456	1,772,501	1,385,336
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	159,688	146,327	157,809	243,656	283,622
(Gain) / loss on investments	(542)	2,675	(12,136)	(165,174)	1,523
Other movements	7,805	22,511	(22,648)	(2,338)	16,721
Changes in operating assets and liabilities					
Increase in accounts receivables	(3,860)	(25,098)	(86,853)	(158,628)	(96,486)
Increase in inventories	(16,048)	(5,646)	(71,038)	(132,375)	(47,077)
Increase in accounts payable and other liabilities	(21,833)	43,524	86,360	146,731	107,377
Other changes in operating assets and liabilities	2,015	(25,297)	(39,639)	(35,030)	(136,340)
Net cash provided by operating activities	214,757	497,414	668,311	1,669,343	1,514,676
Cash flow from investing activities					
Acquisitions of subsidiaries				(173,856)	
Proceeds from sale of property, plant and equipment	3,284	846	15,677	8,352	10,616
Purchases and construction of property, plant and equipment	(140,579)	(153,632)	(239,279)	(269,459)	(573,220)
Proceeds from sale of investments	1,494	15,121	17,650	518,866	72,872
Purchase of investments	(54,071)	(7,106)	(187,590)	(185,594)	(42,722)
Movement of restricted cash	(427)	(77,028)	(15,589)	3,378	(3,122)
Net cash used in investing activities	(190,299)	(221,799)	(409,131)	(98,313)	(535,576)
Cash flow from financing activities					
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of \$1,070 received in transferred subsidiary				(635,383)	
Dividends to shareholders			(61,675)	(332,817)	(384,973)
Other changes in financing activities	6,375	(81,187)	102,799	(57,497)	12,909
Net cash provided by / (used in) financing activities	6,375	(81,187)	41,124	(1,025,697)	(372,064)
Net increase in cash and cash equivalents	30,833	194,428	300,304	545,333	607,036
Effect of exchange rate changes on cash and cash equivalents			46,380	73,641	(58,910)
Cash and cash equivalents at the beginning of the year	159,196	188,529	382,957	729,641	1,348,615
Cash and cash equivalents at the end of the year	190,029	382,957	729,641	1,348,615	1,896,741



NLMK's main production facilities flowchart

