

Novolipetsk Steel (NLMK) Q3 2009 Financial and Production Results

US GAAP

Consolidated Financial Statements

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Key highlights

Improved profitability and sustainable performance

Financial performance 9M 2009

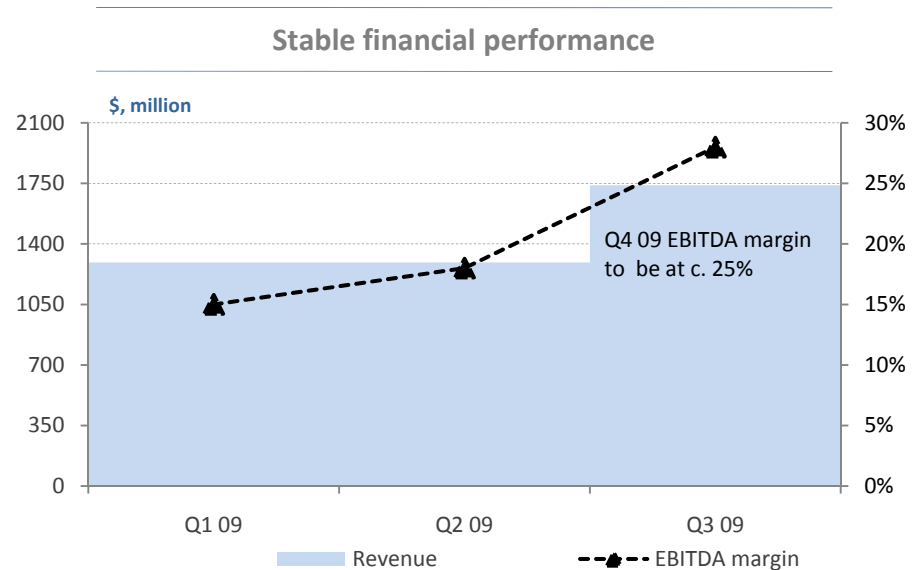
- Revenue: \$4,325 m (-55% y-o-y)
- Production costs \$2,673 m (-41% y-o-y)
- EBITDA \$917 (-77% y-o-y)
- EBITDA margin 21%
- Net loss -\$79 m

Financial performance Q3 2009

- Revenue: \$1,739 m (+35% q-o-q)
- Production costs \$1,003 m (+35% q-o-q)
- EBITDA \$486 m (+107% q-o-q)
- EBITDA margin 28%
- Net income \$164 m

Operating results Q3 2009

- Crude steel production: 2.9 m t (+1% q-o-q)
- Steel sales : 2.3 m t (+40% q-o-q)
- Average selling price for steel products \$483 (+2% q-o-q),
- Cash cost of slab production \$199/t (-1% q-o-q)



¹ Net loss attributable to Novolipetsk Steel shareholders

² EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, impairment losses, accretion expense on asset retirement obligation, depreciation and amortization (without gain | (loss) on investments, income from discontinued operations, gain from disposal of subsidiaries, foreign currency exchange, settlement agreement on the dispute, debt issuing cost and gain on loan restructuring) and other items

Production highlights

High capacity utilization allowed production to exceed pre-crisis levels

- **Production Q3 2009:**

- Production reached the pre-crisis level
- Utilization rate increase across group steel facilities

- **Capacity utilization rate, Q3 2009**

- Lipetsk site – 99%
- NLMK Long Products Division – 81%
- Beta Steel – 88%

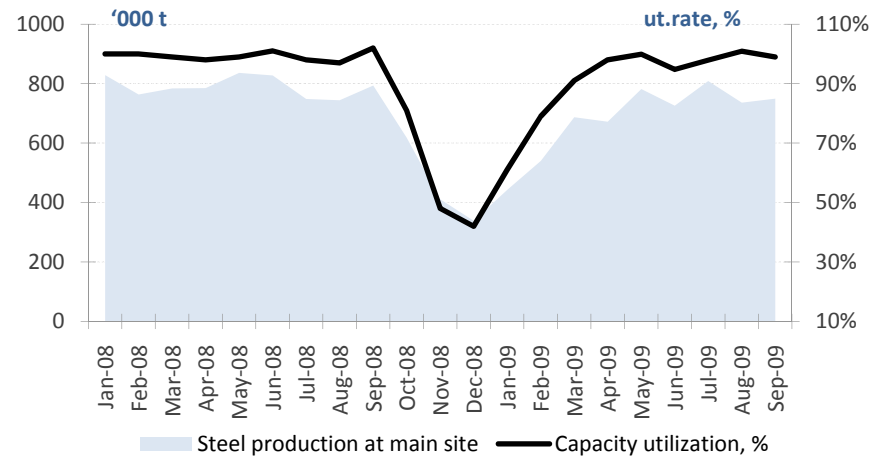
- **9M 2009 production 12% down y-o-y**

- Q3 2009 production 3% up y-o-y

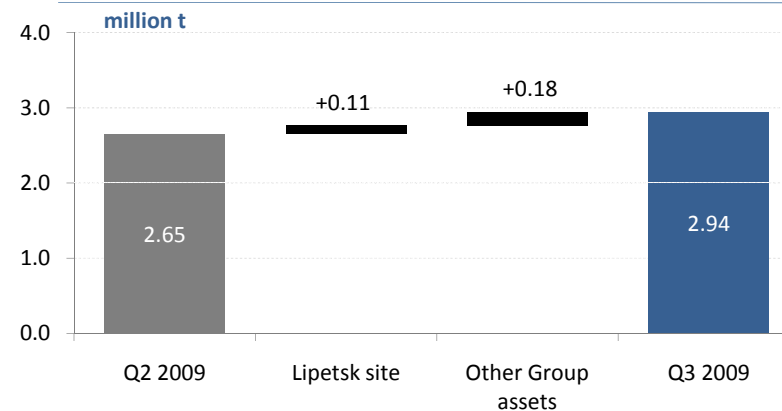
- **Outlook**

- Q4 2009 production expected to decline 4% q-o-q
- Lower seasonal demand prompts maintenance

Crude steel production, Lipetsk site, monthly



Q2 to Q3 09 crude steel production bridge, NLMK Group

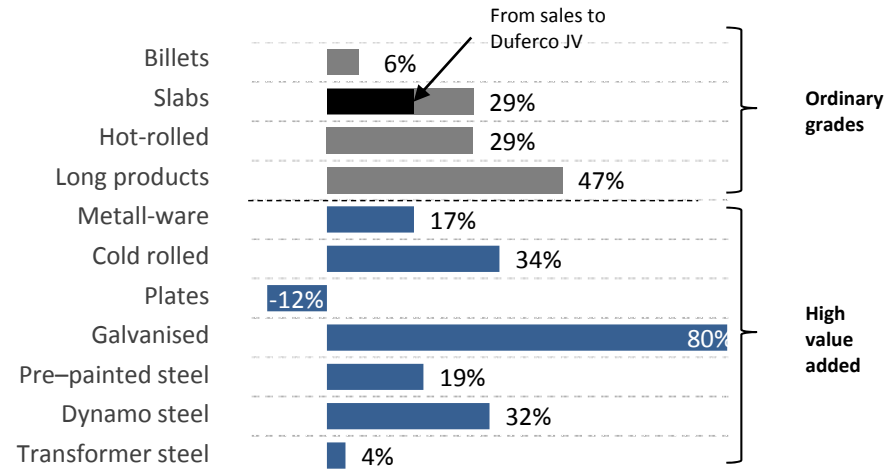


Sales

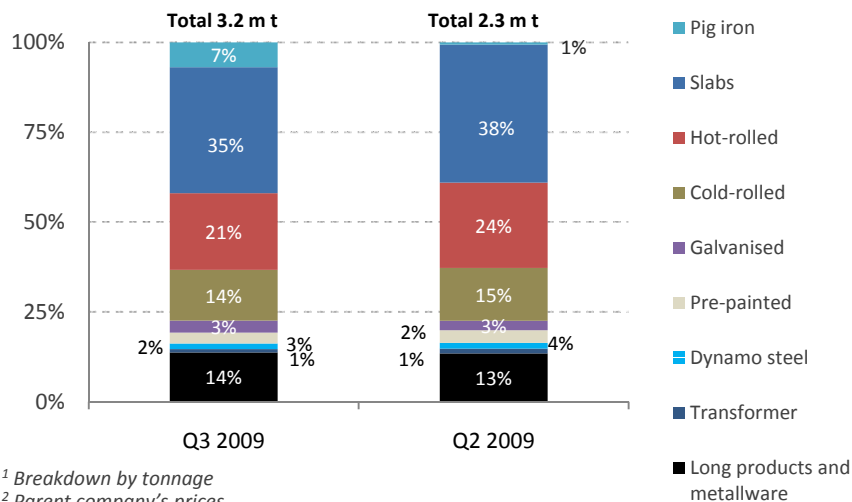
... supported by demand improvement and growing supplies to JV assets

- **Q3 2009 sales: 3,201m t (+40% q-o-q)**
- **Improved sales of high value added products ...**
 - ... as well as semis/ordinary grades products
 - +29% of slabs/HRC sales growth supported by demand
- **Key growth drivers**
 - Stable demand from developing world
 - Duferco JV slab sales
 - Restocking in several mature markets
 - Recovery in the domestic market

Sales dynamics by product: Q3 2009 vs. Q2 2009

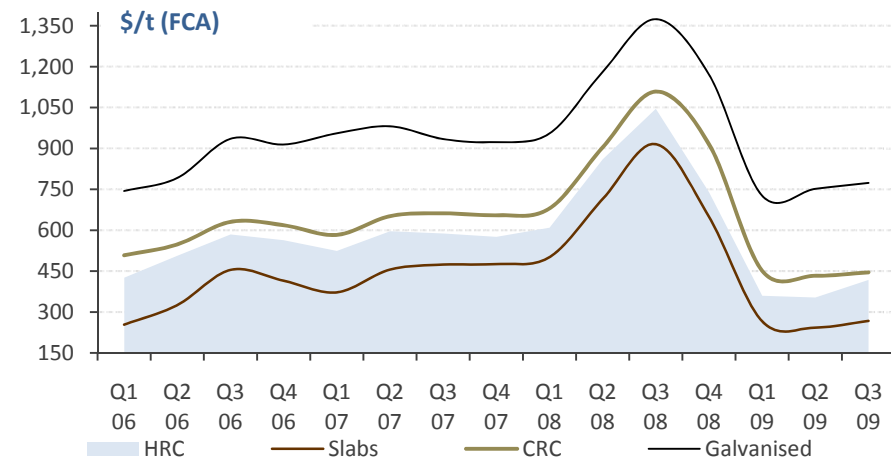


Sales Q3 2009 vs. Q2 2009¹



¹ Breakdown by tonnage
² Parent company's prices

Average selling price²

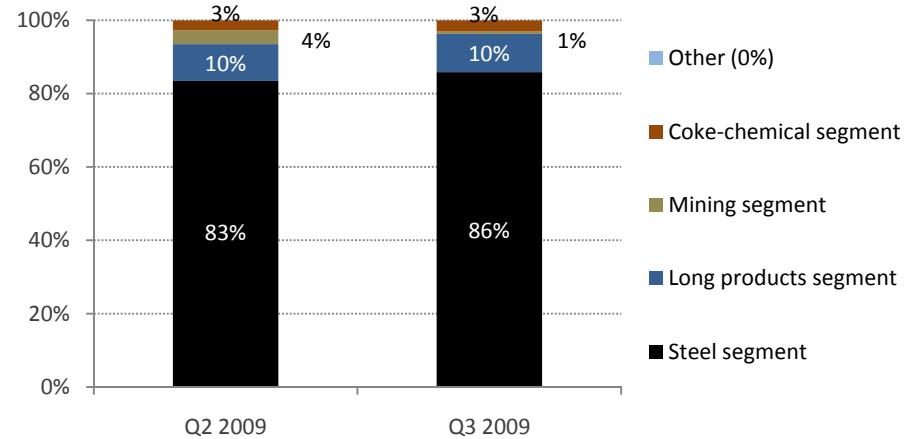


Revenue

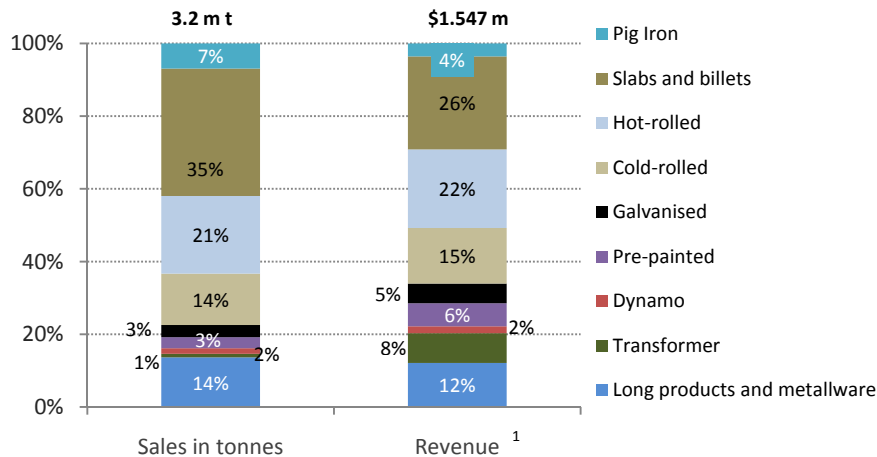
Improved top line on the back of higher volumes and better pricing

- Growth of volumes and prices
- Share of domestic market sales increased to 40%
- Share of HVA products sales growing to over 35%:
 - Transformer steel share grew 8%
 - Coated steel share grew to 11%

Revenue by segment: Q3 2009 vs. Q2 2009

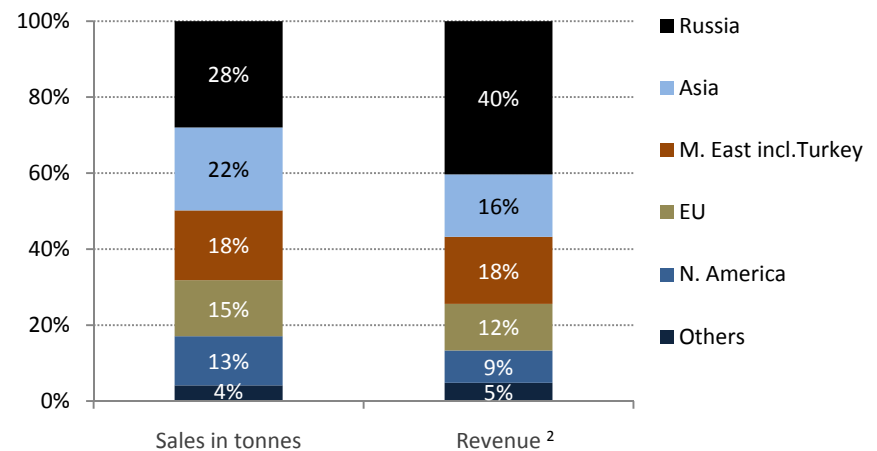


Q3 2009 sales by product



1. Excluding other products sales

Q3 2009 sales by region



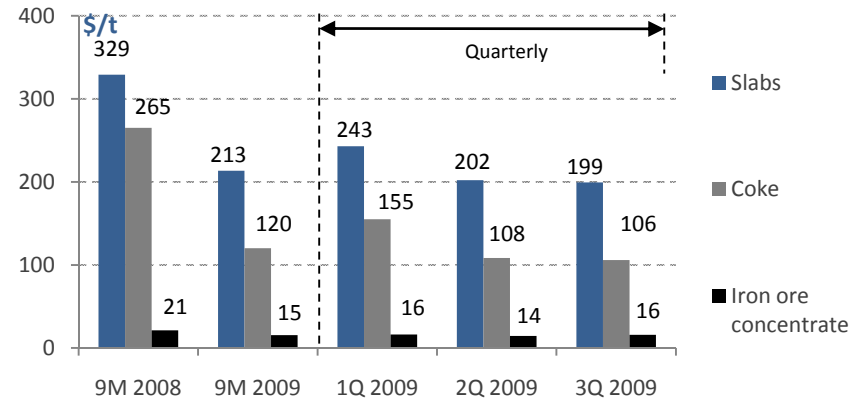
2. Including other products sales

Production costs

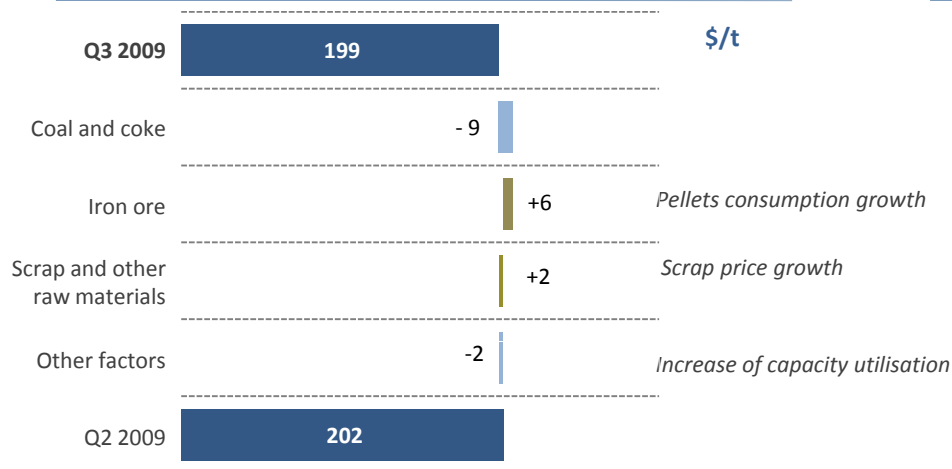
Raw materials prices under control

- **Low costs supported by**
 - Stable prices for key raw materials
 - Higher capacity utilization
 - Efficient utilization of the facilities
 - Low cost upstream assets
- **Q4 2009 developments influencing costs**
 - Higher prices for scrap/coal
 - Stronger RUR exchange rate

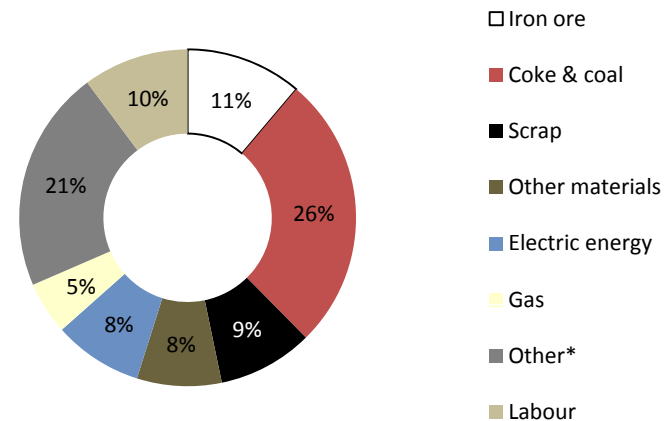
Cash cost by product



Slab cash cost drivers



Cash cost per t of slab, Q3 2009

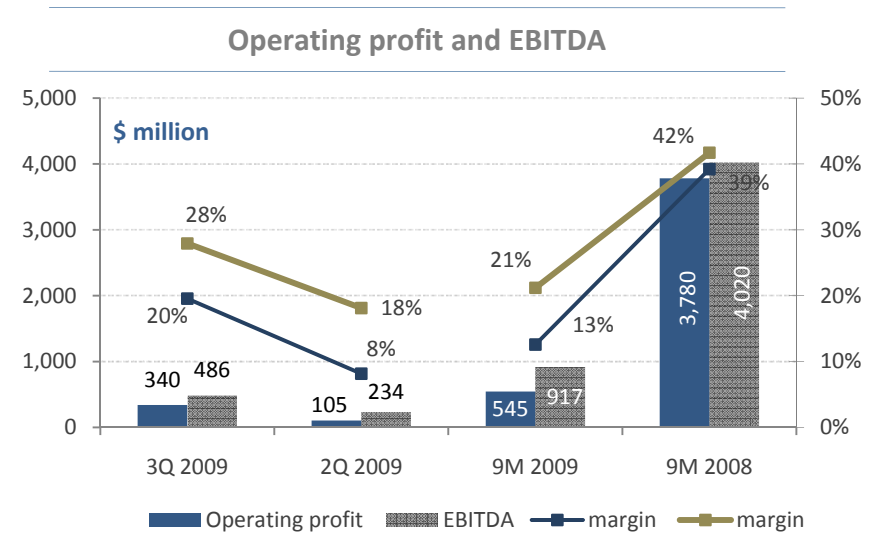


* Third party services, refractory bricks, spare parts, etc.

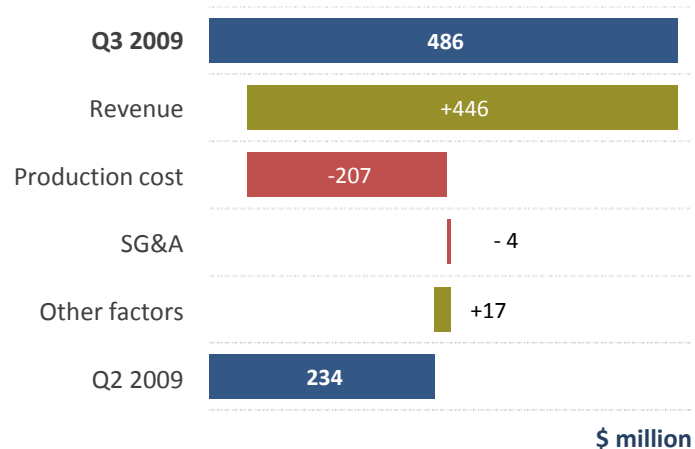
Q3 2009 Profitability

Substantial increase from previous quarter

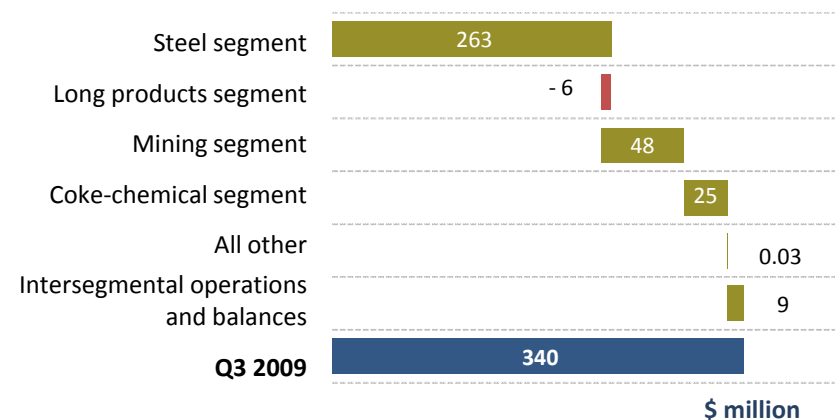
- **Operating profit grew 3x q-o-q**
 - Margin rose to 20%
 - Driven by higher sales volumes and prices
 - Stringent cost management
- **EBITDA grew 2x q-o-q**
 - \$486 m, +107% q-o-q
 - Margin 28%, +10 pp q-o-q
- **Best performing segments in terms of operating profit**
 - Steel segment: +3.5x q-o-q
 - Coke-chemical: +2.7x q-o-q



EBITDA drivers



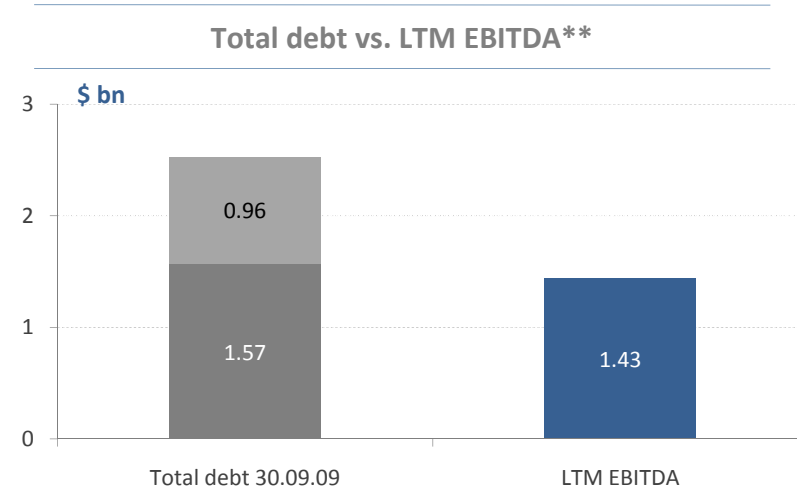
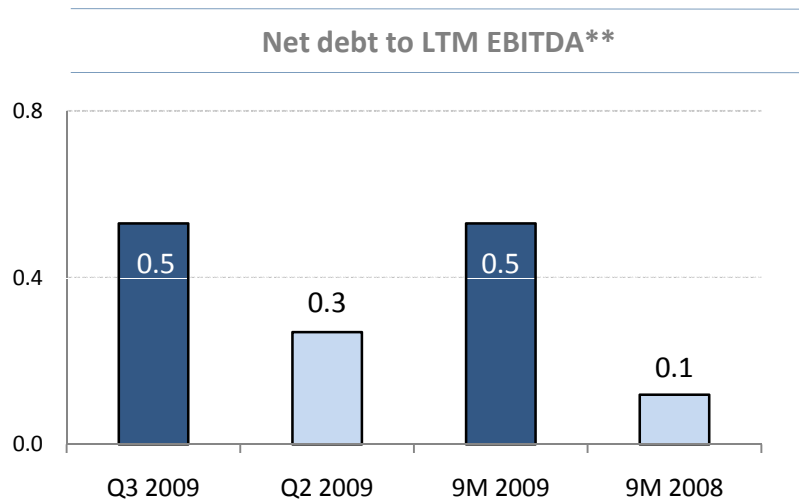
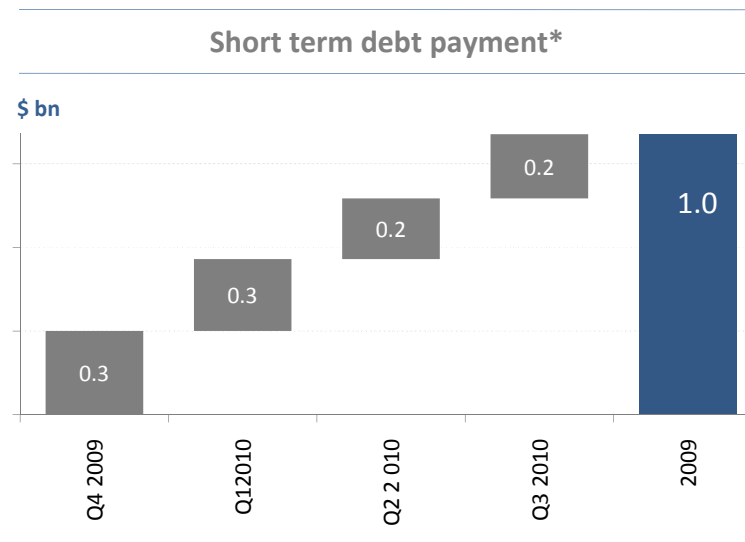
Operating profit by segment



Debt position

Significant liquidity to support growth strategy

- **Gross debt is \$2.5 bn including:**
 - ST debt \$ 0.96 bn
 - LT debt \$1.57 bn
- **Net debt \$0.76 bn**
- **Further moves to lower cost of debt**
 - RUB bond program with a 3-year maturity
 - ✓ RUB10 bn at 10.75%
 - ✓ RUB5 bn at 9.75%



* Short term debt position of the company can differ from the numbers presented in the consolidated financial statement due to accounting policy requirements under US GAAP

** LTM EBITDA - last twelve months EBITDA

Outlook

Strong Q4 numbers expected, Q1 2010 visibility improved

- **Summary**
 - Recovery of steel demand on global market and in Russia
 - Strategy remains unchanged with priority given to further organic growth
 - Sustainable financial position and strong profitability
 - Focused on long-term value creation

- **Outlook**
 - Q4 2009 steel production expected at 2.8 m t, -4% q-o-q
 - FY 2009 crude steel production of 10.5 m t, flat y-o-y
 - Q4 2009 EBITDA margin to be around 25%
 - FY 2009 EBITDA margin to achieve 20-25%

Appendices

Financial Statement

Consolidated Statement of Income

<i>(mln USD)</i>	Q3 2009	Q2 2009	Q3 2009/Q2 2009		9M 2009	9M 2008	9M 2009/9M 2008	
			+ / -	%			+ / -	%
Sales revenue	1 739	1 293	446	34,5%	4 325	9 640	(5 315)	(55,1%)
Production cost	(1 003)	(795)	(207)	26,1%	(2 673)	(4 508)	1 835	(40,7%)
Depreciation and amortization	(126)	(126)	0	(0,1%)	(349)	(380)	31	(8,2%)
Gross profit	610	371	239	64,3%	1 304	4 752	(694)	(14,6%)
General and administrative expenses	(68)	(76)	8	(10,4%)	(233)	(309)	75	(24,4%)
Selling expenses	(176)	(164)	(12)	7,2%	(450)	(575)	125	(21,7%)
Taxes other than income tax	(27)	(26)	(1)	2,0%	(76)	(88)	13	(14,2%)
Operating income	340	105	235	222,4%	545	3 780	(3 236)	(85,6%)
Gain / (loss) on disposals of property, plant and equipment	(5)	(6)	1	(14,8%)	(13)	(19)	5	(29,2%)
Gains / (losses) on investments	(0)	(0)	(0)	161,1%	(2)	25	(27)	
Interest income	18	17	2	10,2%	53	70	(17)	(24,2%)
Interest expense	(31)	(47)	17	(35,6%)	(132)	(136)	5	(3,4%)
Foreign currency exchange loss, net	12	23	(12)	(49,6%)	(78)	(29)	(49)	166,2%
Gain from disposal of subsidiaries								
Other expense, net	1	(17)	18	0,0%	(73)	(39)	(34)	86,2%
Income from continuing operations before income tax	335	76	260	344,1%	300	3 652	(3 352)	-0,91773137
Income tax	(105)	(28)	(77)	277,0%	(132)	(854)	722	(84,6%)
Income from continuing operations, net of income tax	145	(69)	214		(175)	2 861	(3 036)	
Equity in net earnings/(losses) of associate	(85)	(116)	31	(26,6%)	(344)	62	(406)	0,0%
Net income	145	(69)	214		(175)	2 861	(3 036)	
Less: Net loss / (income) attributable to the non-controlling interest	19	19	(1)	(3,4%)	96	(101)	197	0,0%
Net (loss) / income attributable to OJSC Novolipetsk Steel stockholders	164	(49)	213	0,0%	(79)	2 759	(2 838)	0,0%
EBITDA	486	234	251	107,3%	917	4 020	(3 103)	(77,2%)

Consolidated Balance Sheet

	as at 30.09.2009	as at 30.06.2009	as at 31.03.2009	as at 31.12.2008	as at 30.09.2008	as at 30.06.2008	as at 31.03.2008	as at 31.12.2007	as at 31.12.2006
(mln. USD)									
ASSETS									
Current assets	3 854	4 161	4 271	5 346	6 702	5 249	5 094	4 388	3 050
Cash and cash equivalents	1 642	1 591	1 546	2 160	2 735	1 325	1 181	1 155	665
Short-term investments	126	467	338	8	14	181	177	153	37
Accounts receivable, net	908	882	1 187	1 488	1 779	1 822	2 040	1 696	1 150
Inventories, net	1 052	1 031	1 050	1 556	2 033	1 735	1 527	1 236	857
Deferred income tax assets	33	73	45						
Other current assets, net	93	94	90	100	129	172	169	147	331
Restricted cash					11	13			8
Current assets, held for sale				34					
Non-current assets	8 596	8 178	7 526	8 718	9 816	9 864	9 318	8 688	5 667
Long-term investments, net	720	748	719	816	1 022	894	864	819	810
Property, plant and equipment, net	7 026	6 612	6 032	6 826	7 305	7 348	6 969	6 450	3 988
Intangible assets	211	213	211	235	253	278	191	189	199
Goodwill	603	577	530	614	1 161	1 284	1 242	1 189	560
Other non-current assets, net	36	28	34	34	75	60	53	41	110
Non-current assets, held for sale				194					
Total assets	12 450	12 339	11 797	14 065	16 519	15 112	14 413	13 076	8 717
LIABILITIES AND STOCKHOLDERS' EQUITY									
Current liabilities	1 998	2 264	2 279	2 980	3 208	3 517	3 248	3 002	993
Accounts payable and other liabilities	997	1 109	1 162	1 879	1 724	1 757	1 220	1 395	664
Short-term borrowings	957	1 126	1 090	1 080	1 345	1 608	1 934	1 537	249
Current income tax liability	44	29	27	10	139	152	94	71	80
Current liabilities, held for sale				11					
Non-current liabilities	2 059	2 149	2 111	2 361	2 625	939	1 025	975	781
Long-term capital lease liability									
Long-term borrowings	1 571	1 668	1 709	1 930	1 992	77	170	73	48
Deferred income tax liability	371	358	288	297	509	552	538	586	538
Other long-term liabilities	116	123	113	129	123	310	317	317	195
Non-current liabilities, held for sale				5					
Total liabilities	4 057	4 414	4 390	5 341	5 833	4 456	4 273	3 978	1 774
Minority interest					140	53	94	107	133
Stockholders' equity					10 546	10 604	10 046	8 992	6 809
Common stock	221	221	221	221	221	221	221	221	221
Statutory reserve	10	10	10	10	10	10	10	10	10
Additional paid-in capital	112	118	138	52	52	52	52	52	2
Other comprehensive income	(738)	(1 066)	(1 659)	(550)	825	1 641	1 618	1 182	590
Retained earnings	8 877	8 713	8 762	8 956	9 437	8 679	8 144	7 526	5 986
NLMK stockholders' equity	8 483	7 997	7 472	8 690					
Non-controlling interest	(89)	(71)	(64)	33					
Total stockholders' equity	8 393	7 926	7 408	8 723					
	0								
Total liabilities and stockholders' equity	12 450	12 339	11 797	14 065	16 519	15 112	14 413	13 076	8 717

Consolidated Cash Flow Statement

(mln. USD)	Q3 2009	Q2 2009	Q3 2009/Q2 2009		9M 2009	9M 2008	9M 2009/9M 2008	
			+ / -	%			+ / -	%
Cash flow from operating activities								
Net income	145	(69)	214		(175)	2 861	(3 036)	0,0%
Adjustments to reconcile net income to net cash provided by operating activities								
Depreciation and amortization	126	126	(0)	(0,1%)	349	380	(31)	(8,2%)
Loss on disposals of property, plant and equipment	5	6	(1)	(14,8%)	13	19	(5)	(29,2%)
(Gain)/loss on investments	0,3	0,1	0,2	161,1%	2	(25)	27	0,0%
Equity in net earnings of associate	85	116	(31)	(26,6%)	344	(62)	406	
Defferd income tax (benefit)/expense	59	4	55	1321,7%	37	(92)	129	0,0%
Loss / (income) on forward contracts	(178)	(154)	(24)	15,9%	(315)		(315)	
Other movements	7	3	4	127,7%	20	(23)	43	0,0%
Changes in operating assets and liabilities								
Increase in accounts receivables	9	396	(387)	(97,6%)	504	(18)	522	0,0%
Increase in inventories	19	107	(88)	(82,0%)	421	(342)	763	
Decrease/(increase) in other current assets	5	4	1	27,3%	5	15	(10)	(67,3%)
Increase in accounts payable and oher liabilities	28	4	24	561,0%	17	(891)	908	
Increase/(decrease) in current income tax payable	13	0	13	14298,9%	31	68	(37)	(54,8%)
Net cash provided from operating activities	324	545	(221)	(40,6%)	1 251	1 888	(637)	(33,7%)
Cash flow from investing activities								
Acquisitions of subsidiaries						(160)	160	
Payment for acquisition of interests in new subsidiaries						(300)	300	0,0%
Proceeds from sale of property, plant and equipment	5	3	2	53,1%	10	8	3	33,0%
Purchases and construction of property, plant and equipment	(294)	(211)	(83)	39,4%	(708)	(1 448)	740	(51,1%)
Settlement of abandoned acquisition					(234)		(234)	
Proceeds from sale of investments	359	143	216		502	94	408	432,2%
Placement of bank deposits and purchases of other investments	(3)	(202)	199	(98,6%)	(511)	(32)	(479)	1481,8%
Net cash received in acquisition of interests in new subsidiaries						298	(298)	0,0%
Loan issued	(17)	(188)	170	(90,8%)	(334)		(334)	
Movement of restricted cash						(12)	12	0,0%
Net cash used in investing activities	50	(454)	504		(1 274)	(1 552)	278	(17,9%)
Cash flow from financing activities								
Proceeds from borrowings and notes payable	197	111	85	76,4%	571	3 556	(2 985)	(83,9%)
Repayments of borrowings and notes payable	(506)	(185)	(321)	173,2%	(1 011)	(1 742)	730	(41,9%)
Capital lease payments	(12)	(9)	(3)	32,4%	(39)	(73)	34	(47,1%)
Dividends paid to minority shareholder of existing subsidiaries					(0)	(12)	12	(100,0%)
Dividends to shareholders	(0,1)	(0)	0	(26,1%)	(1)	(365)	363	(99,7%)
Net cash used in financing activities	(321)	(83)	(238)	287,9%	(480)	1 365	(1 845)	0,0%
Net increase / (decrease) in cash and cash equivalents	53	8	45	526,8%	(503)	1 701	(2 204)	0,0%
Effect of exchange rate changes on cash and cash equivalents	(2)	36	(38)		(15)	(120)	104	(87,2%)
Cash and cash equivalents at the beginning of the period	1 591	1 546	44	2,9%	2 160	1 155	1 005	87,1%
Cash and cash equivalents at the end of the period	1 642	1 591	51	3,2%	1 642	2 735	(1 094)	(40,0%)

Segmental Information

Q3 2009

(million USD)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1 493	182	12	53	0,5	1 739		1 739
Intersegment revenue	32	111	118	84	0,0	346	(346)	
Gross profit	470	20	59	39	0,3	588	22	610
Operating income/(loss)	263	(6)	48	25	0,0	331	9	340
<i>as % of net sales</i>	17,2%	(2,0%)	36,9%	18,6%	5,3%	15,9%		19,5%
Income / (loss) from continuing operations before minority interest	290	(54)	40	20	0,3	257	(123)	134
<i>as % of net sales</i>	19,0%	(18,5%)	31,1%	14,6%	71,4%	12,3%		7,7%
Segment assets including goodwill ¹	10 117	2 163	988	761	42	14 072	(1 622)	12 450

Q2 2009

(million USD)	Steel	Long products	Mining	Coke-chemical	All other	Totals	Intersegmental operations and balances	Consolidated
Revenue from external customers	1 079	130	48	35		1 293		1 293
Intersegment revenue	24	64	111	79		278	(278)	
Gross profit	272	15	67	18		373	(1)	371
Operating income/(loss)	74	(30)	49	9	()	102	3	105
<i>as % of net sales</i>	6,7%	(15,3%)	30,8%	8,1%	(33,4%)	6,5%		8,2%
Income / (loss) from continuing operations before minority interest	569	(66)	41	(6)		579	(435)	144
<i>as % of net sales</i>	51,6%	(34,1%)	25,8%	(5,2%)	85,1%	36,8%		11,1%
Segment assets including goodwill ²	9 597	2 063	945	763	39	13 408	(1 068)	12 339

¹ as at 30.06.2009

² as at 31.03.2009

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