



Novolipetsk Steel

UBS Investor Conference

New York, March 2007

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Agenda

- **NLMK today**
- **Sustainable Growth Strategy 2007-2011**
- **Macro conditions for growth**
- **Q&A**

NLMK: leading Russian steel company

Leading position in steel industry

- ▶ 9.1mt of crude steel production, 100% flat
- ▶ 40% high value-added products
- ▶ Export sales 60% of revenues
- ▶ 5-year average EBITDA margin over 40%

Vertically integrated and low cost

- ▶ Integrated low cost iron ore production
- ▶ Self-sufficient in coke and secondary materials
- ▶ Over 40% self sufficient in electricity
- ▶ Slab cash cost USD167/t* one of the world lowest
- ▶ Downstream integration on-track with 6.7 mln t new rolling capacity in full and joint control in 2006

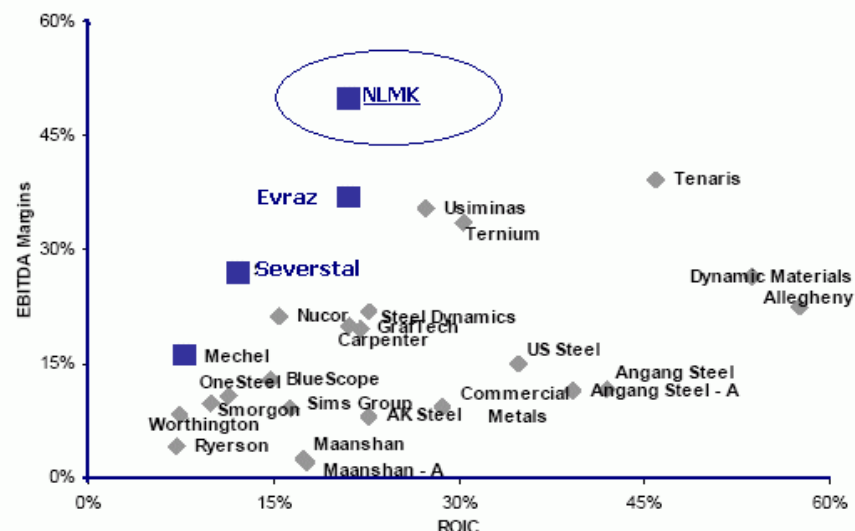
Strong platform for further growth

- ▶ Modern, well-equipped facilities. More than USD 1.8 bn capex in 2000-2006
- ▶ 2007-2011 total capex program – USD 4.4 bn
- ▶ 40% steel production growth planned
- ▶ Net cash at USD1.3 bn end of 3Q 2006



* 3Q 2006 consolidated number

EBITDA margin vs. ROIC¹



1. JP Morgan, company estimates

***We are strongly committed to
"profits over tonnes" approach.***

NLMK Group today – an enhanced portfolio



PRODUCTION VOLUMES

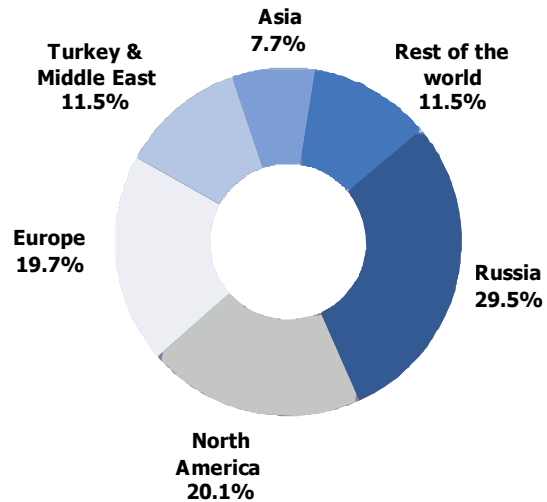
	STEEL	ROLLED
NLMK Group*	9.1 mln t	5.1 mln t
NLMK – Duferco JV (EU)	2.0 mln t	2.9 mln t
NLMK – Duferco (USA)		1.6 mln t



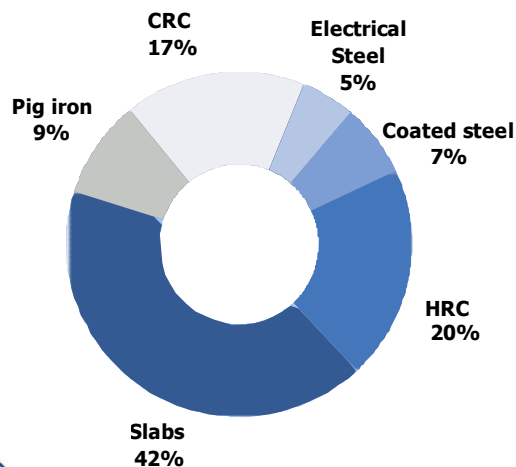
* Includes NLMK, Viz-Stal and DanSteel A/S production volumes

Leading position in Russian and world market

H1 2006 sales by region



H1 2006 steel segment sales



H1 2006, tonnage-wise distribution

Product

Rank

Share

Market	Product	Rank	Share
Russian market	CRC	#1	34%
	Electrical steel	#1	70%
	Coated steel		
	- pre-painted	#1	32%
	- galvanized	#3	17%
World market	HRC	#3	11%
	Slabs	#1-2	~13%
	Grain-oriented electrical steel	#1-2	~20%
EU market	Hot-rolled thick plates*	#2	~15%

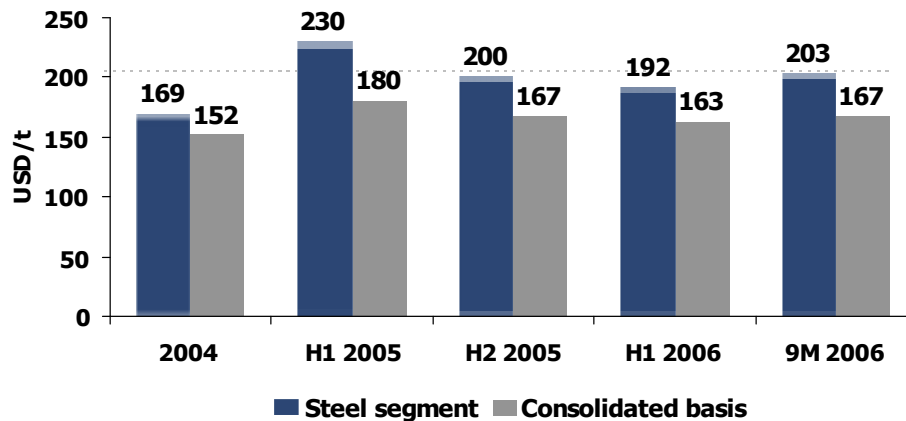
* Market share includes JV with Duferco Group

Stringent cost management

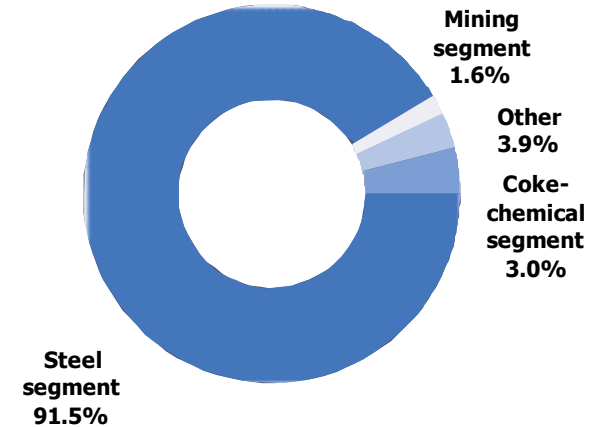
Factors of 2006 costs reduction:

- ▶ Efficient upstream assets portfolio
- ▶ Single site integrated modern steel production
- ▶ Increased energy self-sufficiency
- ▶ Reduction of maintenance costs

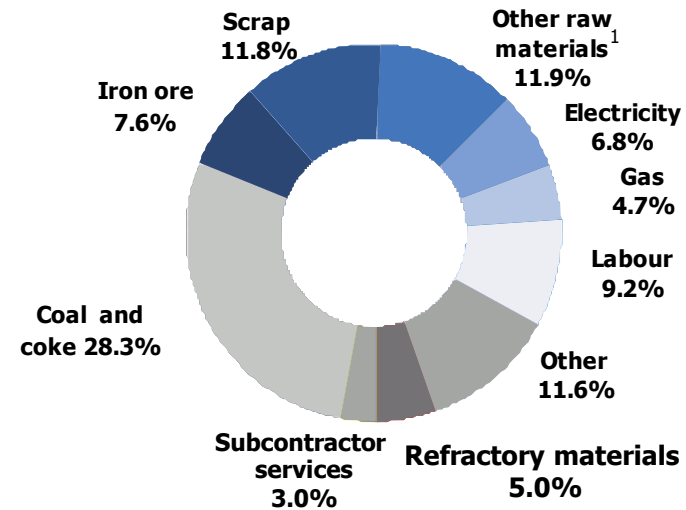
Slab production cost trend



9M 2006 sales revenue by segment



9M 2006 consolidated cash cost breakdown



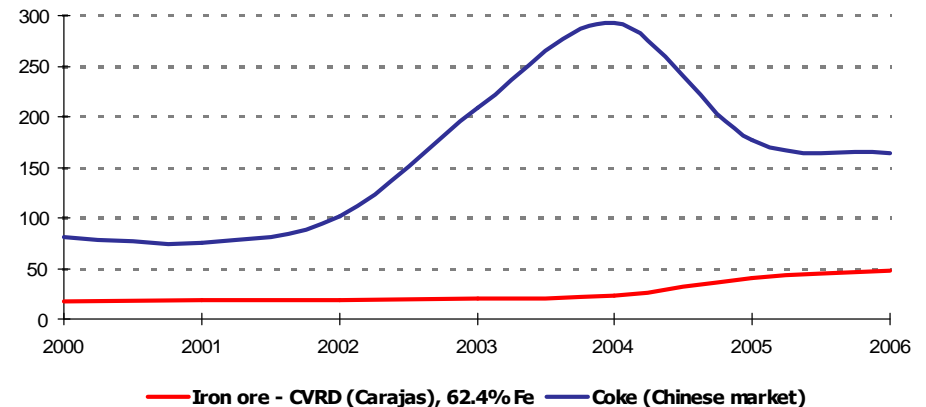
¹ Dolomite, limestone, etc.

Stringent cost management (raw materials)

Factors of cost reductions:

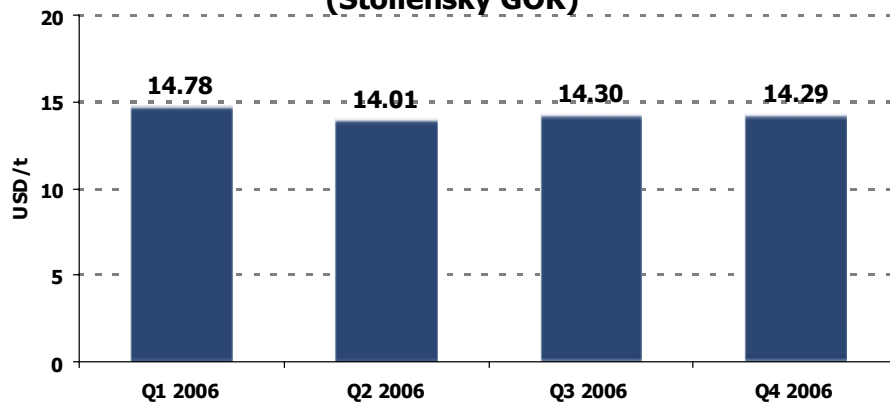
- ▶ intensive technical upgrading program
- ▶ growth of production volumes
- ▶ well-balanced utilization of production capacities
- ▶ decreasing energy consumption
- ▶ logistics optimization

Coke and iron ore prices¹



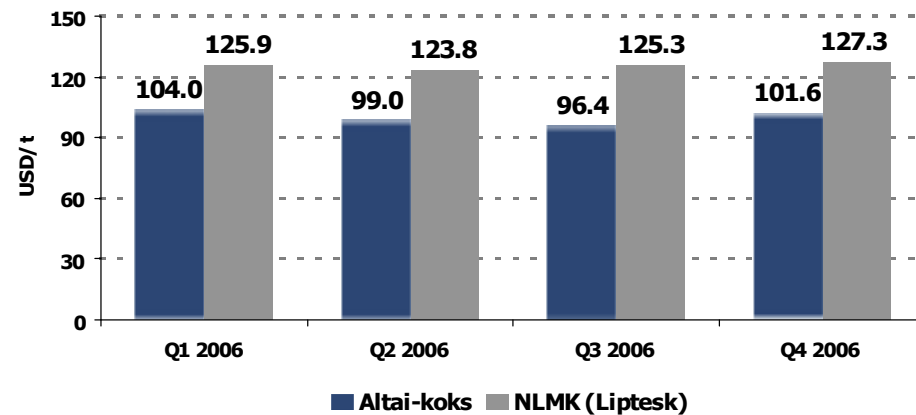
Iron ore concentrate cash cost

(Stoilensky GOK)



Coke production cash cost

(NLMK and Altai-koks)



¹ Steel Business Briefing, Metal Expert, company estimates

Superior financial performance

Historical performance 2001-2005

- EBITDA CAGR of 45%
- Average EBITDA margin above 40%
- Average ROE of 27%

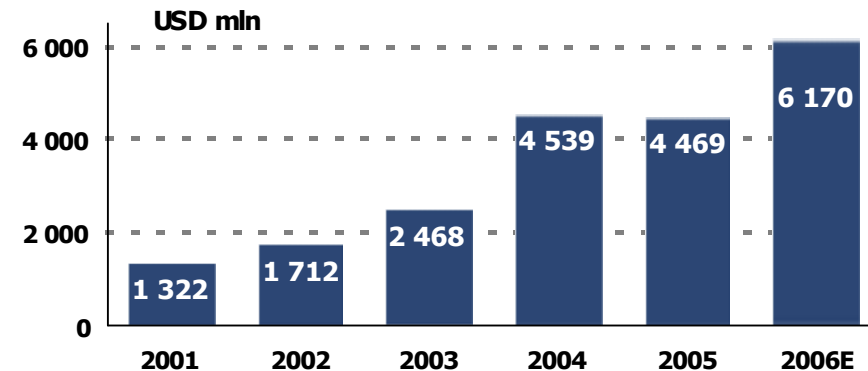
9M 2006 financial highlights

- Sales revenue of USD 4,358 mln
- EBITDA of USD 1,829 mln, margin of 42%
- Operating cash flow of USD 1,029.5 mln
- Net income of USD 1,685 mln
- Return on equity (ROE) of 37%

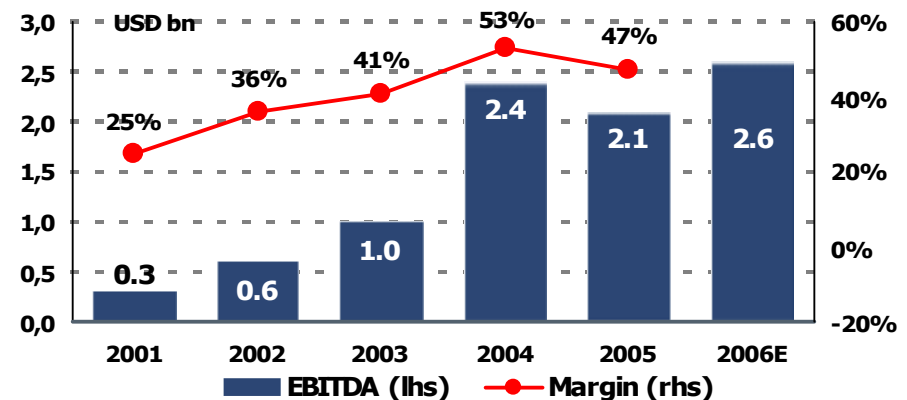
FY 2006 Outlook

- Sales revenue growth about 38% YoY
- Operating profit growth over 30% YoY
- EBITDA around USD 2.6 bn
- EBITDA margin over 40%

Sales revenue



EBITDA¹

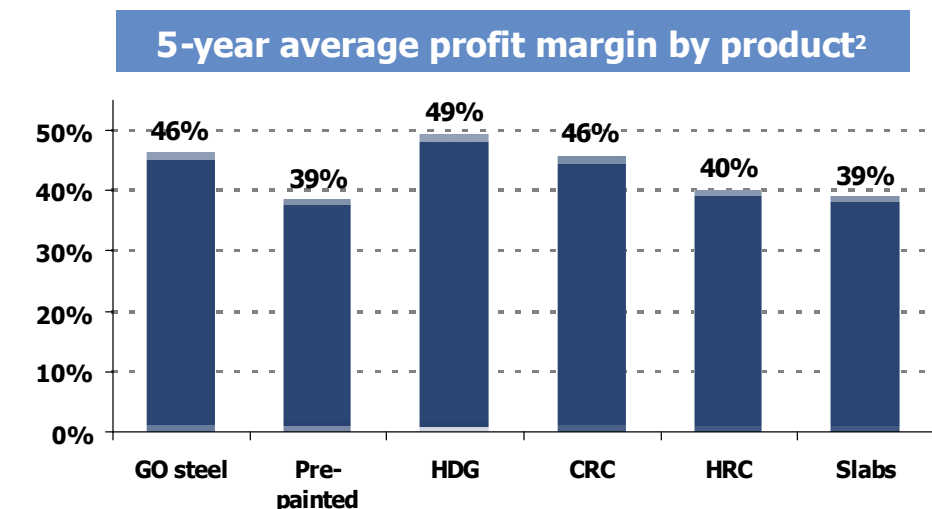
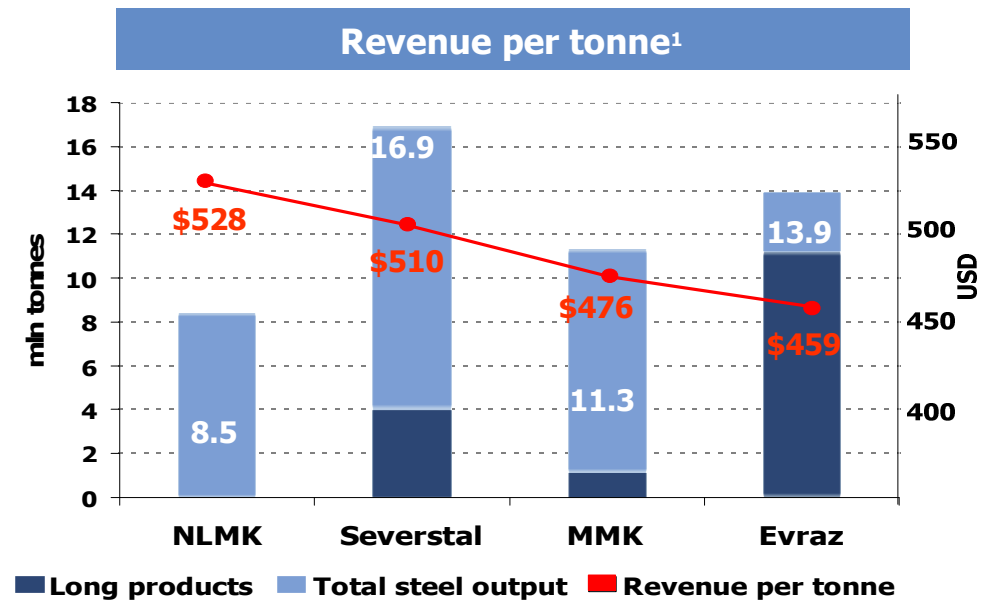


¹ EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, depreciation and amortization and stock-based compensation (without gain/ (loss) on investments).

NLMK: geared for further growth

Principal competitive strengths

- ▶ Efficient and closely located iron ore asset
- ▶ Integrated low cost coke producer
- ▶ Efficient steel production at the main site
- ▶ Proximity to Russian and export markets
- ▶ Growing share of high value-added products
- ▶ High-tech niche products development. GO steel 11% of 2006 sales revenue
- ▶ Downstream integration of rolling assets to bring substantial synergies
- ▶ Robust economic growth in Russia benefits domestic sales increase



1. 2005 US GAAP financial results; company estimates

2. 5-year average (2000 – 2005) results for Lipetsk production site



Agenda

- NLMK today
- **Sustainable Growth Strategy 2007-2011**
- Macro conditions for growth
- Q&A

Sustainable growth strategy 2007 - 2011

Key elements of NLMK's strategy:

- Expansion based on 'profits over tonnes' approach to ensure sustainable earnings growth
- Maximum utilization of core competitive advantages in low cost steel production
- Pursuing self-sufficiency in basic raw materials through vertical integration
- Further development of high value-added product portfolio through organic growth and downstream acquisitions
- Optimization of the asset structure; unlocking the value of non-core assets
- Rise in efficiency and cost reduction through intensive capex program

Key targets 2012

- **Steel production of 12.4 mln tpy (+40%)**
- **Total rolled steel production over 9.5 mln tpy (+90%)**
- **Increased efficient raw materials self-sufficiency**

Increase in crude steel production



Crude steel objectives:

- Total investments: USD 2.4 bln
- Growth of production: 3.4 mln
- EBITDA impact: +15%



Major projects under 2nd Phase of the Technical Upgrading Program:

Blast furnace production

- Construction of 3.4 mln tpy blast furnace #7
- Modernization of 2 existing furnaces and retirement of 2 other facilities
- Install PCI to reduce natural gas consumption by 70%

Steelmaking production

- Modernization of BOF shops
- Construction of 300 th. tpy BOF vessel and two ladle furnaces
- Installation of vacuum degaser to raise quality

Energy facilities

- Installation of new co-generation facilities to increase energy self-sufficiency from 43% to 60%

Raw materials self-sufficiency

Raw materials objectives :

- Investments: USD 1.1 bln
- Pellets production: 3 mln t
- Iron ore concentrate production growth: 2.5 mln t
- EBITDA impact: +16%



Major projects under 2nd Phase of the Technical Upgrading Program:

Stoilensky GOK

- Construction of a pellet plant
- Development of mining capacity to raise production by 25%
- Increase of beneficiating capacity

Altai-koks

- Maintaining total coke capacity at 5 mln tpy level
- Revamping chemicals production facilities

Dolomite and Stagdok

- Maintaining self-sufficiency in flux and dolomite

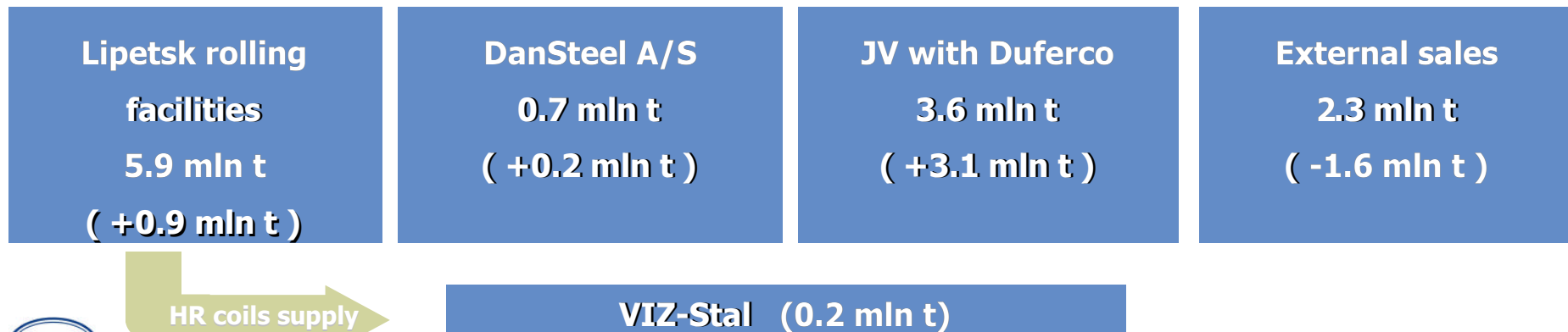
Rolled products output increase



Flat rolled steel objectives:

- Investment: USD 0.9 bln (excluding M&A)
- Growth of rolled sheet production: 4.5 mln tonnes¹
- EBITDA impact: +29%

Slabs supply from Lipetsk production site in 2012 12.4 mln tonnes



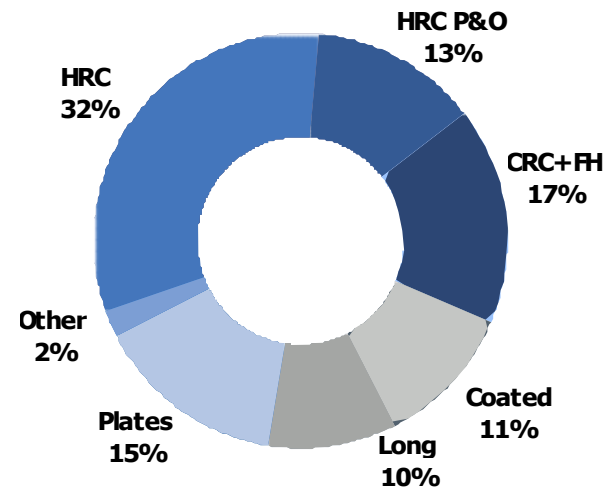
1. Including organic growth and acquired rolling facilities

Joint Venture with Duferco Group

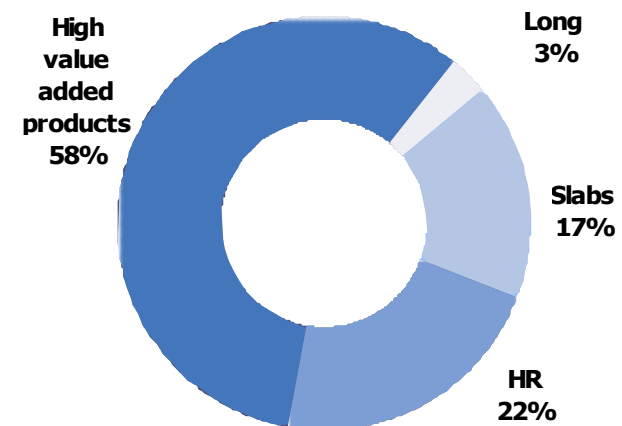
Joint Venture (JV) includes 6 production sites with 4.5 mln t 2006 output and 9 service centers

- 50% interest acquired for approx. USD805 mln
- About USD300 mln synergy benefits to be gained in slab supply, logistics, technology and sales
- NLMK slab supply to increase from 0.5 to 3.6 mln tonnes between 2006 and 2012
- EUR375 mln capex envisaged in the next 5 years:
 - ▶ Finished steel increase to 6.0-6.5 mln tpy (+40%)
 - ▶ High value added grades 3.6 mln tpy (+50%)

JV product mix in 2006



NLMK+JV product mix in 2012



Agenda

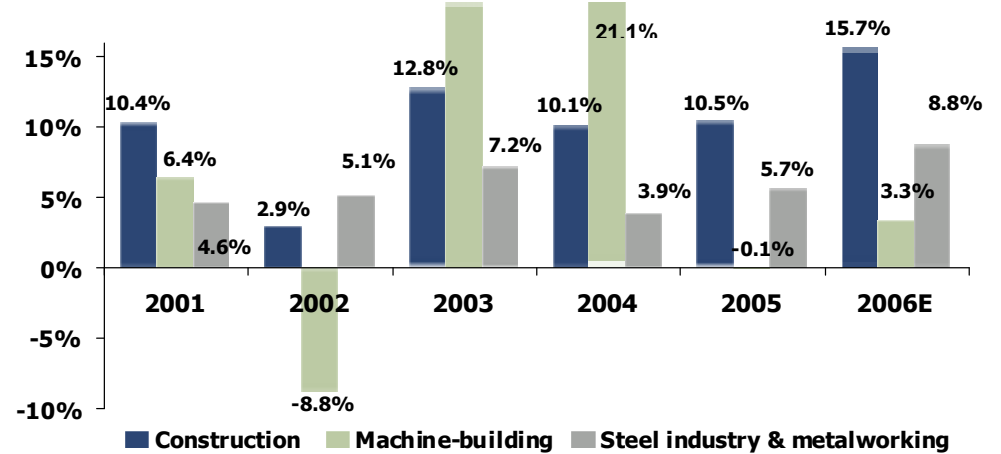
- **NLMK today**
- **Sustainable Growth Strategy 2007-2011**
- **Macro conditions for growth**
- **Q&A**

Domestic market

Key domestic market benefits

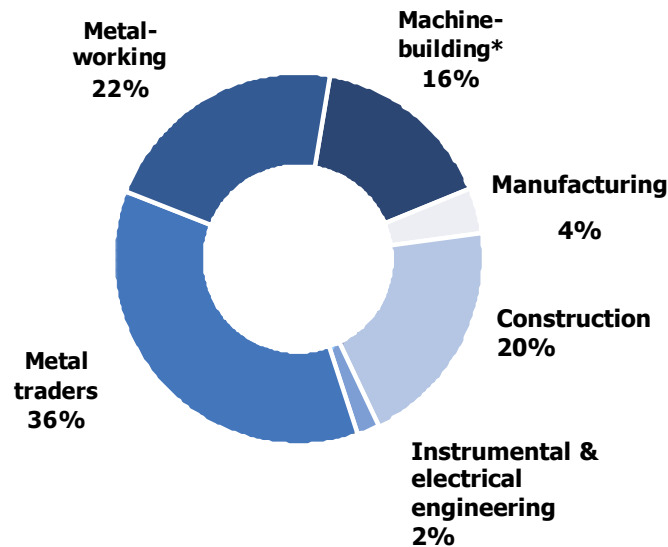
- ▶ Strong demand (5-10% growth in real terms)
- ▶ Three major players in flat steel products
- ▶ Average domestic prices enjoy strong support from Russia's growing economy
- ▶ NLMK's sales of high value-added products in domestic sales – 55%

Key industries growth rates



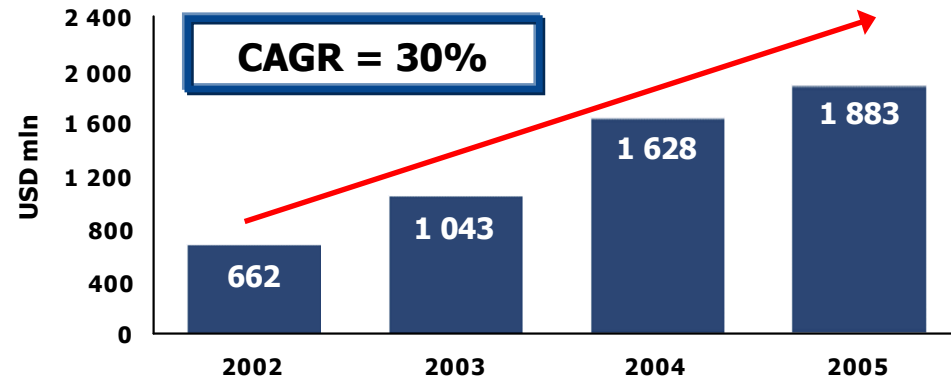
Source: Rosstat, company estimates

9M 2006 domestic sales by industry



* including 11% of auto industry sales

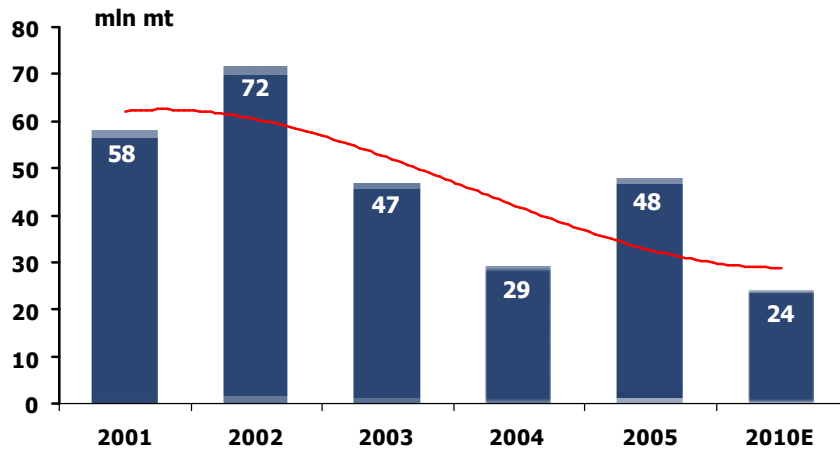
Domestic market sales (2002 -2005)



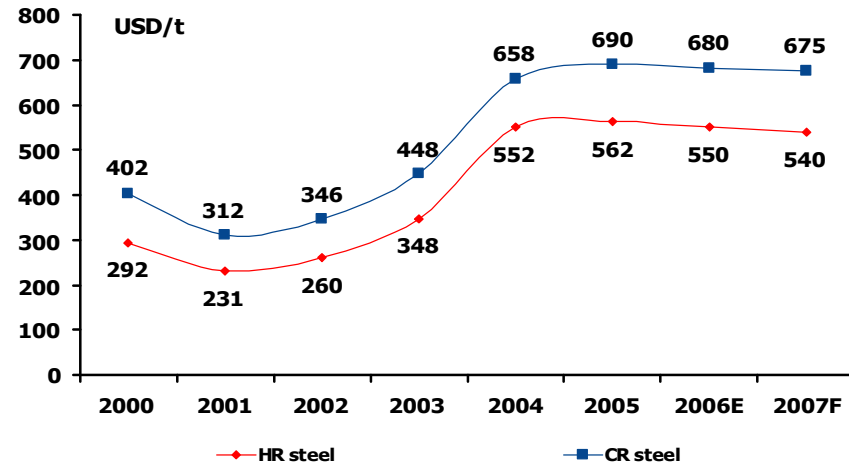
Global conditions for growth

- We believe that global steel demand will rise by 3-5% annually for the next decade
- Excess capacity will be controlled by continuing consolidation
- As a result price visibility will improve

Global excess HR coil capacity

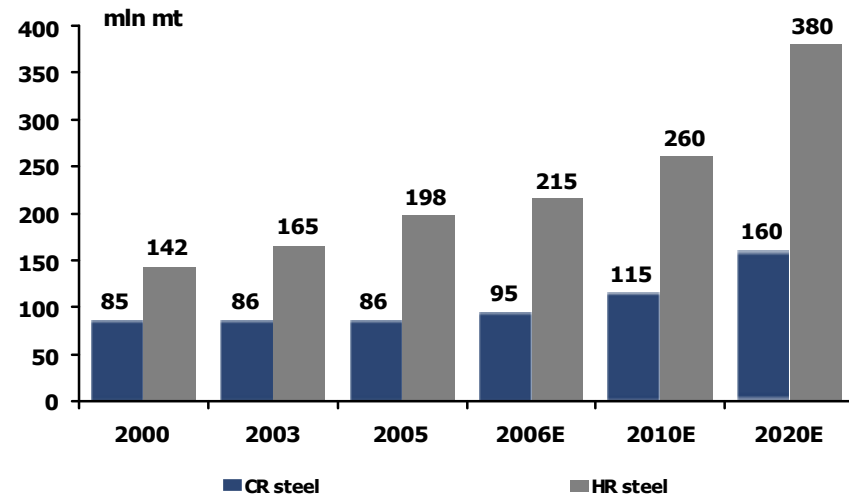


Price development for HR & CR steel¹



¹ Nominal period average coil base prices, fob parity point EU

Global demand for HR & CR steel²



² Finished rolled steel coil, sheet and strip.



Source: IISI

Appendices



NLMK main assets

Raw materials (mining)

Stoilensky GOK (iron ore)

- Reserves: 5 bln t
- Iron ore concentrate production: 11.0 mln tpy
- Supply to NLMK: 86%

Altai-koks (coke)

- Capacity 5 mln tpy
- Production: 3 mln tpy
- Supply to NLMK 27%

Prokopievskugol (coal)

- Reserves: 200 mln t
- Production: 3 mln tpy
- Supply to Altai-koks 95%

Stagdok (limestone)

- Reserves: 180 mln t
- Production: 2 mln tpy
- Supply to NLMK 51%

Dolomite (dolomite)

- Production: 2 mln tpy
- Supply to NLMK 52%

Steelmaking & rolling

Production site in Lipetsk

Crude steel: 9.1 mln tpy
Slabs: 3.9 mln tpy
Rolled steel:

- HRC: 1.6 mln tpy
- CRC: 1.8 mln tpy
- Galvanized: 0.43 mln tpy
- Pre-painted: 0.34 mln tpy
- GO: 0.14 mln tpy
- NGO: 0.34 mln tpy

VIZ-Stal (NGO&GO steel)

Production:

- GO: 0.18 mln tpy
- NGO: 0.02 mln tpy

DanSteel (heavy plate producer)

- Production: 0.47 mln tpy

Joint venture with Duferco Group

Production:

Crude steel: 1.8 mln tpy
Rolled steel: 4.5 mln tpy

Sales/Logistics/R&D

Tuapse Sea Port (TMTP)

- Freight turnover: over 20mln tpy
- of which steel: 10%
- Max. vessel size: 80 k t

NTK (railway operator)

- Volume: 46mln t
- Share of NLMK's cargo: 85%
- Number of cars: 1400

Gipromez (R&D facility)

- Personnel: 344
- Specializes in steel equipment engineering

Trading house NLMK (Moscow)

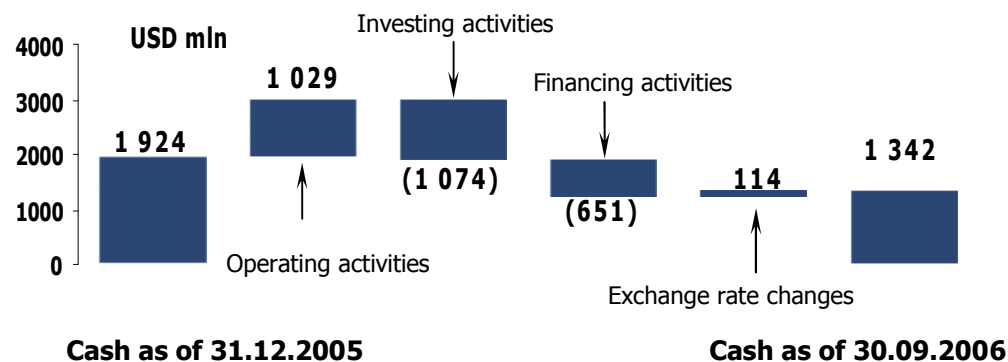
- Trading raw materials and supplies

NLMK DV (Vladivostok)

- Trading in China and Far East

Cash objectives

9M 2006 Cash Flow



CASH FUNDS

Technical Upgrade

- ▶ Phase 1 (2000-2005): USD 1.3 bln
- ▶ Phase 2 (2007-2011): USD 4.4 bln

M&A activities

- ▶ Upstream: USD 736 mln
- ▶ Downstream: USD 654 mln
- ▶ Project pipeline: acquisition of 3.5 mln t of rolling capacity

Dividends

- ▶ 2005 total dividends: USD 660 mln
- ▶ H1 2006 interim: USD 336 mln
- ▶ 30% of US GAAP net income – an average dividend payment during 5 period
- ▶ Proceeds from divesting non-core assets are used for special dividend payments

Consolidated income statement

	mIn USD						
	1Q 2005	2 Q 2005	3Q 2005	4Q 2005	1Q 2006	2Q 2006	3Q 2006
Sales revenue	1 271	1 106	986	1 106	1 123	1 479	1 757
Production cost	(542)	(486)	(510)	(580)	(605)	(685)	(765)
Depreciation and amortization	(74)	(66)	(69)	(74)	(74)	(85)	(92)
Gross profit	654	555	406	452	444	709	900
General and administrative expenses	(25)	(20)	(67)	4	(38)	(50)	(45)
Selling expenses	(14)	(18)	(16)	(15)	(16)	(101)	(90)
Taxes other than income tax	(5)	(20)	(11)	0	(10)	(11)	(12)
Operating income	610	497	312	441	380	546	753
Loss on disposals of property, plant and equipment	(1)	(6)	(0)	(5)	(1)	(1)	(2)
Gain / (loss) on investments	(5)	1	7	(5)	384	7	5
Interest income	21	25	26	26	29	29	24
Interest expense	(3)	(4)	(4)	(4)	(5)	(6)	(9)
Foreign currency exchange loss, net	(21)	9	(8)	11	(57)	(13)	(2)
Other income/(expense), net	2	3	(14)	(7)	(3)	(7)	(2)
Income from continuing operations before income tax and minority interest	603	526	320	457	727	555	766
Income tax	(164)	(118)	(110)	(104)	(177)	(150)	(196)
Income from continuing operations before minority interest	439	408	210	352	550	405	570
Income from associates and subsidiaries	-	3	1	0	0	0	(0)
Minority interest	(14)	2	(5)	(12)	(5)	(7)	(4)
Income from continuing operations	426	413	206	341	546	398	566
Income from discontinued operations	-	-	1	-	-	-	175
Net income	426	413	207	341	546	398	741
EBITDA*	652	580	356	507	390	603	836

Note:

*EBITDA is calculated as the sum total of net profit, net interest expense, income tax, loss on disposal of fixed assets, depreciation and amortization (without gain/ (loss) on investments).



Consolidated balance sheet

	30.06.2005	30.09.2005	31.12.2005	31.03.2006	30.06.2006	30.09.2006
						mln USD
ASSETS						
Current assets	3 208	3 263	3 436	3 865	3 287	3 556
Cash and cash equivalents	1 773	1 933	1 924	2 271	1 386	1 342
Short-term investments	18	19	27	23	21	53
Accounts receivable, net	697	625	709	764	966	1 100
Inventories, net	542	500	559	561	643	751
Other current assets, net	170	179	209	238	263	299
Restricted cash	8	8	8	8	9	10
Non-current assets	2 620	2 704	2 775	2 960	4 087	4 734
Long-term investments, net	58	47	31	34	7	5
Property, plant and equipment, net	2 275	2 375	2 415	2 586	3 341	3 770
Intangible assets	19	18	21	20	20	202
Goodwill	174	175	173	197	589	636
Other non-current assets, net	93	89	134	123	131	121
Total assets	5 828	5 967	6 211	6 825	7 374	8 290
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities	685	731	612	540	893	1 232
Accounts payable and other liabilities	664	704	566	511	693	978
Short-term borrowings	-	-	5	-	142	119
Current income tax liability	21	26	41	29	58	136
Non-current liabilities	329	357	392	423	508	605
Long-term borrowings	-	-	45	-	17	14
Deferred income tax liability	293	310	301	312	422	537
Other long-term liabilities	35	47	46	111	70	55
Total liabilities	1 013	1 087	1 003	962	1 401	1 838
Minority interest	81	86	93	113	126	129
Stockholders' equity	4 733	4 793	5 114	5 750	5 848	6 323
Common stock	221	221	221	221	221	221
Statutory reserve	10	10	10	10	10	10
Additional paid-in capital	1	32	2	2	2	2
Other comprehensive income	89	120	72	265	414	485
Retained earnings	4 412	4 410	4 809	5 251	5 200	5 605
Total liabilities and stockholders' equity	5 828	5 967	6 211	6 825	7 374	8 290



Consolidated cash flow statement

mln USD

	1Q 2005	2Q 2005	3Q 2005	4Q 2005	1Q 2006	2 Q 2006	3 Q 2006
Cash flow from operating activities							
Net income	426	413	207	340	546	398	741
Adjustments to reconcile net income to net cash provided by operating activities							
Minority interest	14	(2)	10	6	5	7	4
Depreciation and amortization	74	66	70	73	74	85	92
Loss on disposals of property, plant and equipment	1	6	0	5	1	1	2
(Gain)/loss on investments	5	(1)	(3)	0	(384)	(7)	(5)
Gain from operations of discontinued subsidiary	-	-	-	-	-	-	(226)
Equity in net earnings of associate	-	(3)	(1)	(0)	(0)	(0)	(0)
Defferd income tax (benefit)/expense	8	(10)	15	(13)	(7)	(0)	(6)
Stock-based compensation	-	-	31	(30)	-	-	-
Other movements	(20)	3	(5)	(0)	15	7	5
Changes in operating assets and liabilities							
Increase in accounts receivables	(232)	101	76	(42)	(25)	(113)	(18)
Increase in inventories	(14)	(70)	44	(6)	22	(27)	(65)
Decrease/(increase) in other current assets	(3)	2	(10)	(22)	4	(6)	1
Increase in loans provide by the subsidiary bank	4	(40)	(9)	(24)	(20)	(22)	(23)
Increase in accounts payable and oher liabilities	36	31	9	31	(60)	18	(76)
Increase/(decrease) in current income tax payable	(24)	(33)	8	15	(13)	27	76
Net cash provided from operating activities	275	463	444	332	159	369	502
Cash flow from investing activities							
Acquisitions of subsidiaries	-	-	-	-	(59)	(750)	(538)
Proceeds from disposal of discontinued operations	-	-	-	-	-	-	275
Proceeds from sale of property, plant and equipment	2	6	1	2	3	0	7
Purchases and construction of property, plant and equipment	(100)	(166)	(155)	(152)	(91)	(149)	(175)
Proceeds from sale of investments	4	20	30	18	403	17	31
Purchase of investments	(3)	(18)	(10)	(12)	(28)	16	(32)
Movement of restricted cash	(2)	(1)	(0)	(0)	0	(1)	(1)
Net cash used in investing activities	(99)	(158)	(134)	(145)	227	(867)	(435)
Cash flow from financing activities							
Proceeds from borrowings and notes payable	6	2	9	3	8	0	4
Repayments of borrowings and notes payable	(2)	(1)	(4)	(1)	(15)	(78)	(34)
Payments to controlling shareholders for common control transfer of interests in a new subsidiary, net of cash of \$1,070 received in transferred subsidiary	-	-	-	-	(104)	-	-
Dividends to shareholders	(2)	(5)	(167)	(210)	(0)	(336)	(96)
Net cash provided by / (used in) financing activities	3	(4)	(162)	(208)	(111)	(414)	(126)
Net increase in cash and cash equivalents	179	301	148	(20)	275	(912)	(59)
Effect of exchange rate changes on cash and cash equivalents	(4)	(52)	12	(16)	72	26	16
Effect of Dansteel A/S consolidation				27			
Cash and cash equivalents at the beginning of the year	1 349	1 524	1 773	1 933	1 924	2 271	1 386
Cash and cash equivalents at the end of the year	1 524	1 773	1 933	1 924	2 271	1 386	1 342

