



Novolipetsk Steel (NLMK)

Credit Suisse Asset Management Forum



June 2006

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Introduction to NLMK

➔ **Leading Russian steel producer**

- ✓ Among the world's most profitable steel companies with sales revenue of USD 4.5 billion and EBIDTA margin of 47% for 2005
- ✓ World class steel assets producing a broad range of high value-added products

➔ **A unique vertically integrated company**

- ✓ Mining assets integration ensures access to basic raw materials, iron ore concentrate and coking coal
- ✓ Implementation of the downstream integration strategy pursuing an aim of further development of the high value-added product portfolio

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

- ✓ Disciplined approach towards M&A activities based on consistent efficiency criteria and substantial synergetic effects
- ✓ Strong balance sheet and cash generation providing a platform for pursuing strategic acquisition opportunities all over the world

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

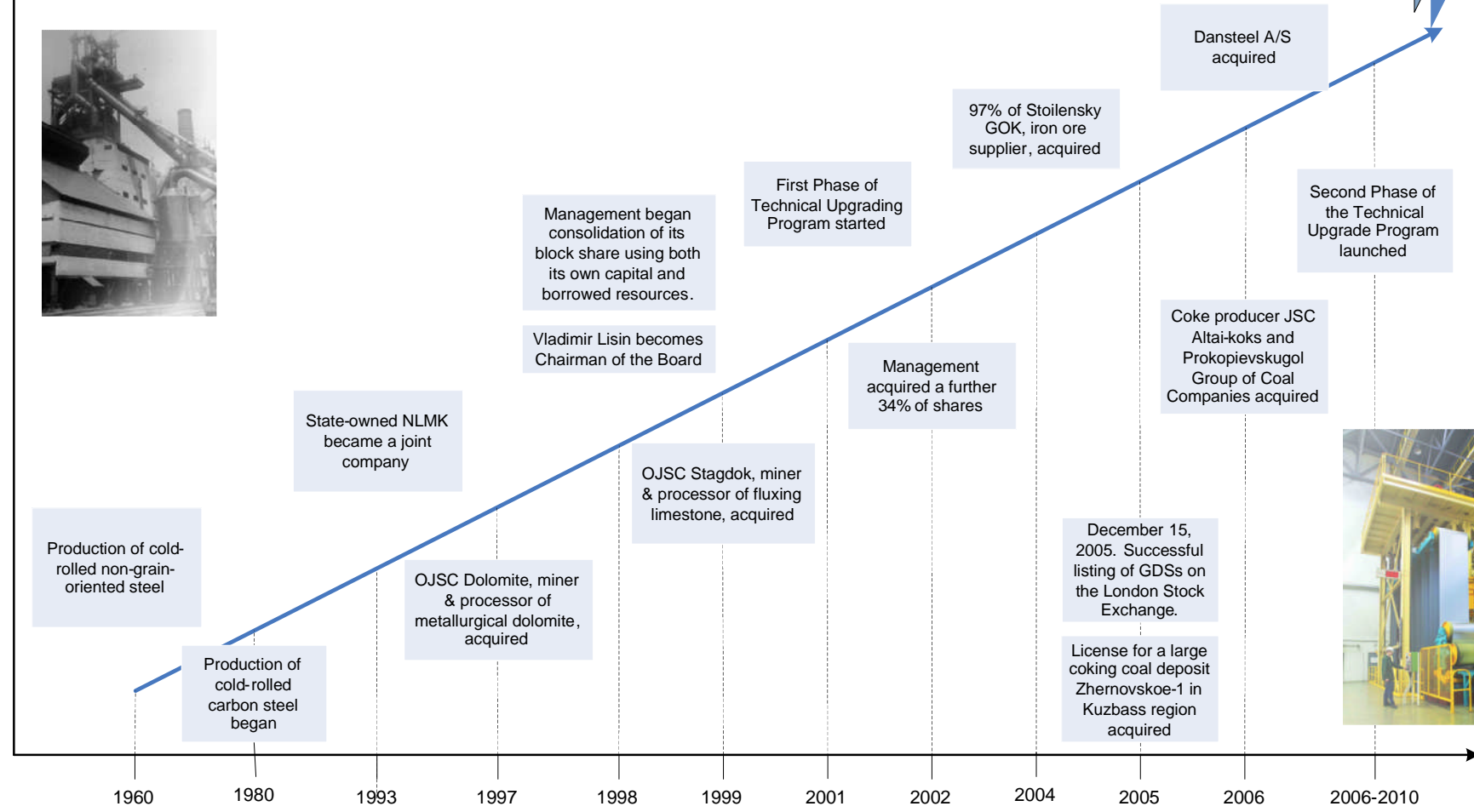
- ✓ One of the first companies in Russia to introduce audited US GAAP financial reporting since 1998
- ✓ Currently 4 independent directors out of 9 on the Board



NLMK Milestones

Our Strategic goal – to become the most profitable steel company in the world

The success story



Major 2005 - 2006 Developments

August 2005

NLMK acquired a license for the exploration and development of Zhernovskoe-1 coal deposit (Russia, Kemerovo region) for USD 38.4

January 2006

NLMK acquired from its controlling shareholder a 100% stake of Danish steelmaker DanSteel A/S for USD 104 mln

January 2006

NLMK divested 12% interest in Lebedinsky GOK for USD 400 mln

February 2006

NLMK acquired controlling stake in KMA Ruda

April 2006

NLMK acquired control in Altai-koks, coke-chemical plant, and in holding company that owns 100% of "Prokopievskugol" Coal Company for USD 750 mln

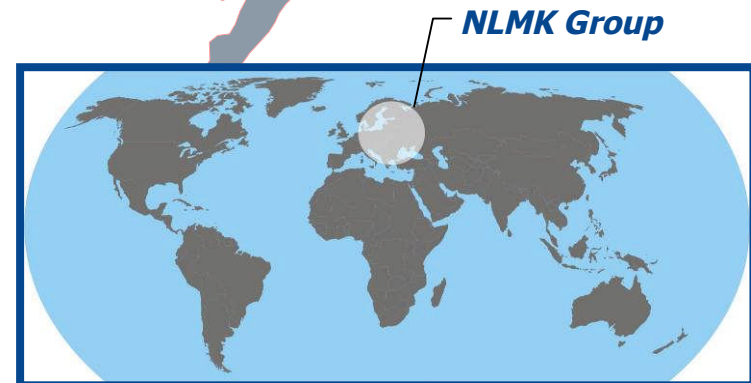


NLMK Group today

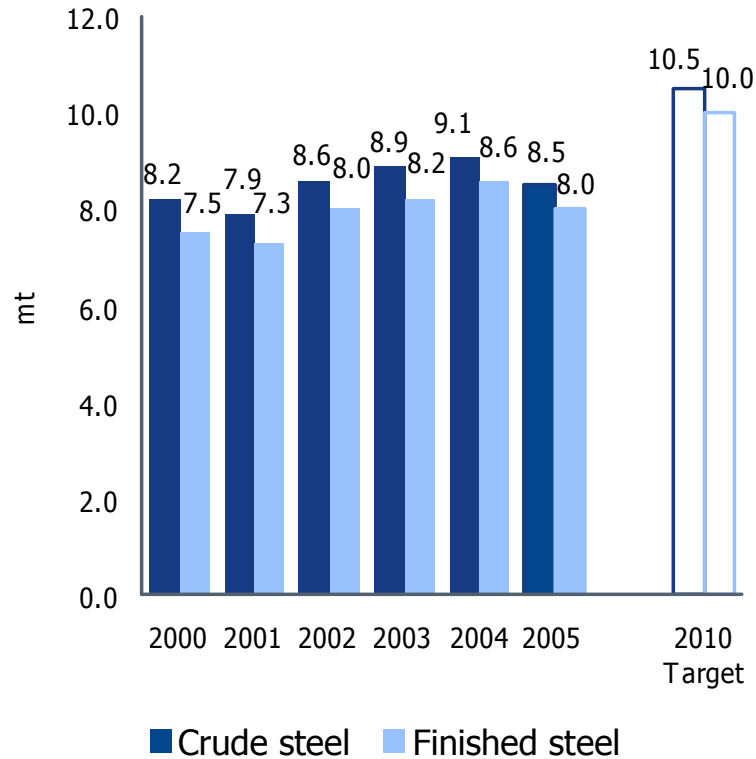
- **Single site steel** production
- 350 km proximity to own iron ore mines
- Major customers located within 1,500 km from our plant
- Access to logistics and sea ports



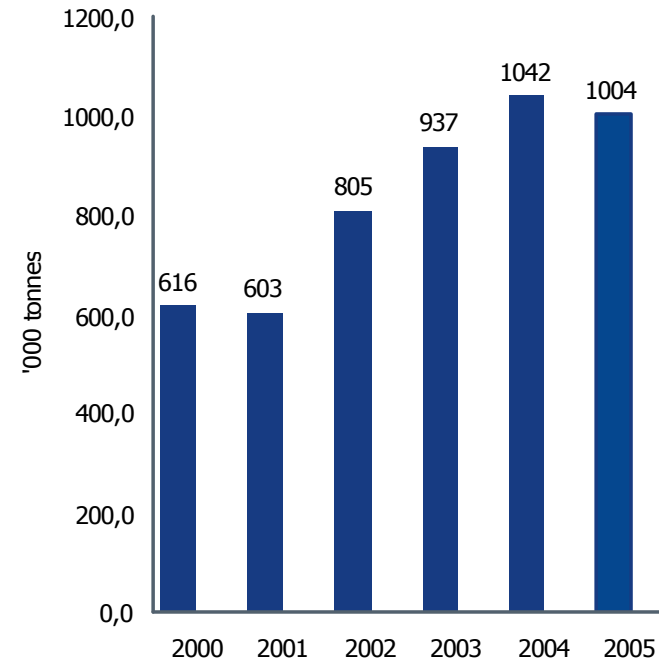
- ◆ NLMK Group companies
- NLMK newly acquired assets
- ⚓ Sea ports
- Area of major export routes and NLMK's customers



Steel production



High value-added segment¹ production



¹ includes hot-dip galvanized steel, pre-painted steel and electrical steel

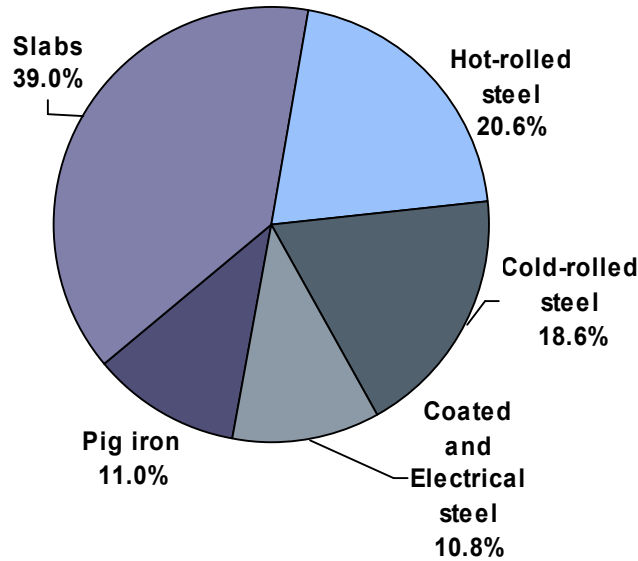
Reduction in steel output in 2005 resulted from scheduled major maintenance activities at Blast Furnace Plant and Steelmaking Plant accelerated and due to a downturn in the steel market

In 2006 NLMK plans to return to 2004 production levels

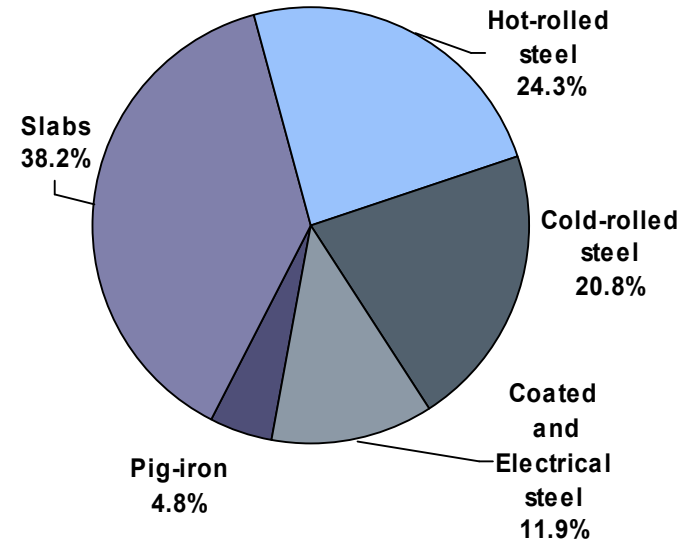


Market position

2004 ¹



2005 ¹



Note:
1 Tonnage-wise distribution

GLOBAL MARKET	Rank	Market share
---------------	------	--------------

Slabs **#1-2** **11%**

✓ **Leading Russian steel producer with a well-diversified portfolio of products**

Russia	Rank	Market share
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Hot-rolled steel **#3** **9%**

Cold-rolled steel **#1** **39%**

Electrical steel **#1** **50%**

Coated steel

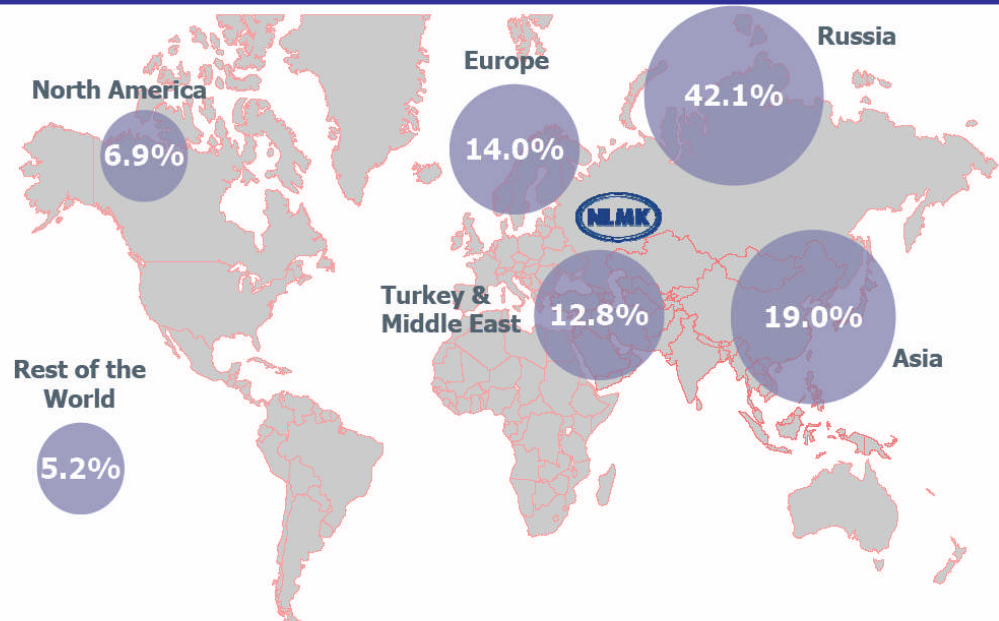
- prepainted **#1** **31%**

- galvanized **#3** **14%**



A global steel supplier

Export sales by country, 2005		
Country	Sales, in mln. USD	Sales, in %
Turkey	434.8	16.2
China	383.9	14.3
USA	305.6	11.4
Denmark	202.4	7.5
Taiwan	191.0	7.1
Italy	140.3	5.2
Tailand	123.3	4.6
Ukraine	110.2	4.1
Others	791.9	29.6
Total	2,683.4	100.0



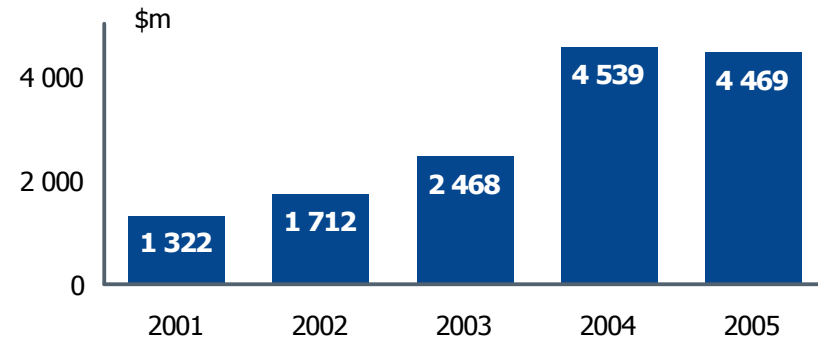
Note: Based on FY 2005 consolidated sales

- ✓ Well-diversified sales portfolio by geography
- ✓ Key markets proximity to production site
- ✓ Growing domestic market share

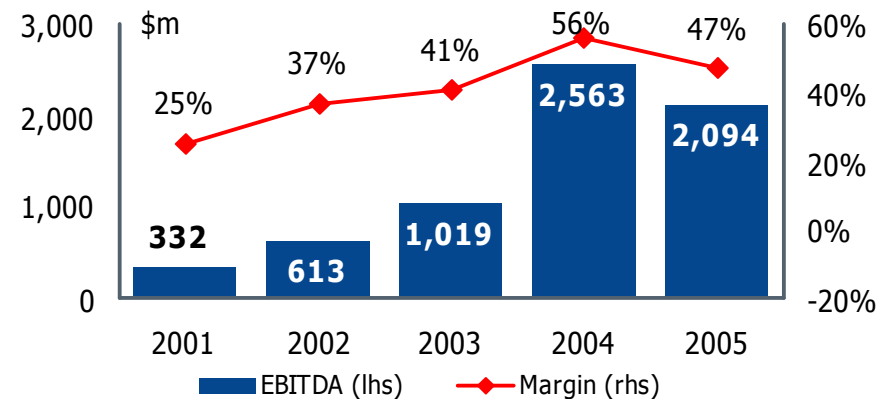


- 2005 sales revenue of USD 4.5 billion
- 2005 operating cash flow of USD 1.5 billion
- 2005 ROE of 29%
- 2005 strong EBITDA of USD 2.1 billion, margin of 47%
- Successful global offering and secondary listing on LSE - market capitalisation USD 8.7 billion - 15 December, 2005
- First Russian steelmaker to be added to MSCI Emerging Markets Index

Sales revenue



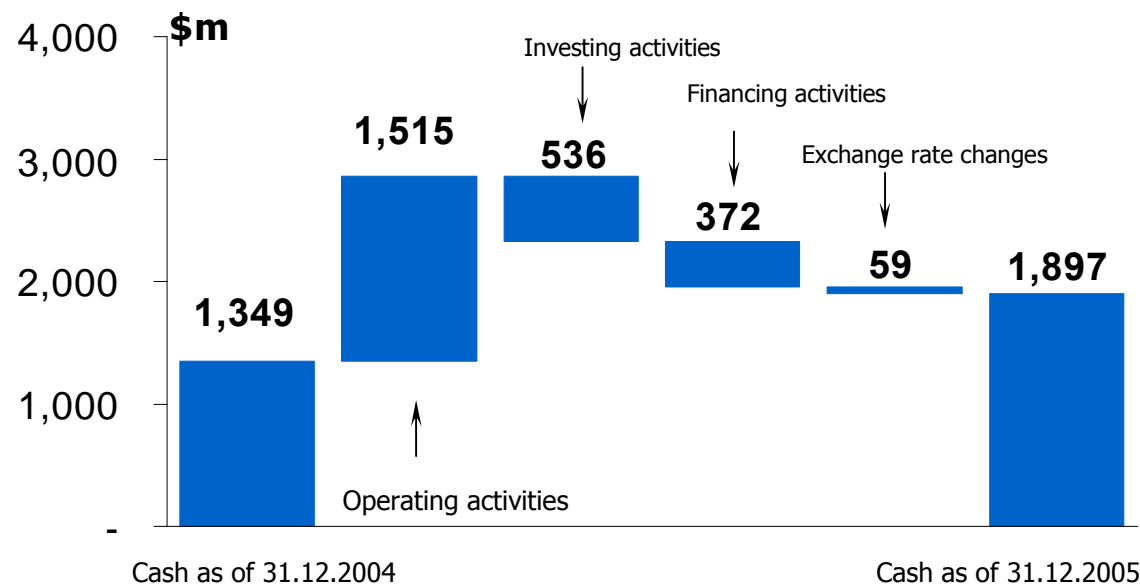
EBITDA



Strong financial position of NLMK

- ➔ \$1.9 bn cash position provides significant financial flexibility to:
 - Fund Technical Upgrade Program (2006-2010)
 - Pursue value enhancing M&A opportunities
 - Pay dividends in line with dividend policy

2005 Consolidated Cash Flow



Strategic objectives



- Vertical integration strategy based on 'financial results before tonnes' approach
- Self-sufficiency in major raw materials
- Controlled international expansion (DanSteel vs Erdemir)
- Technical upgrading program – phase one completed
- Organic growth and costs reduction
- Optimization of the management system at the Group level
- Enhancement of progressive dividend policy

Global strategy: Why expand beyond Russia?

- To take advantage of proximity to our core markets including Europe and other markets through pursuing acquisitions of downstream production capacities
- To strengthen company's ability to adjust corporate strategy to global industry consolidation trends on a timely basis
- To develop strong business relationship with global customers by recognition of the growing importance of plant specialization and manufacturing excellence
- To enhance R&D activities utilizing developed markets' modern technologies and facilities
- Extra added value through further development of high value-added product portfolio

Acquisition Strategy

Strategic discipline

- To pursue M&A activities with substantial synergetic effect
- To seek acquisition opportunities providing management control over assets
- To avoid portfolio investments into minority stakes
- To focus M&A strategy on company's core markets and core business
- To maintain firm commitment to international business standards

Financial discipline

- To apply consistent criteria to projects' valuation:
 - Internal Rate of Return (IRR) > 14.5% ¹
 - Payback period (PP) < 6.3 years ²
- To assess each investment individually but focus on entire strategy
- To keep the balance between the strength of company's financial position and high-quality of M&A investments

¹ for increase in steel output projects > 20%

² for steel segment projects < 5.3 years



Selective M&A approach is a basis of our stable growth

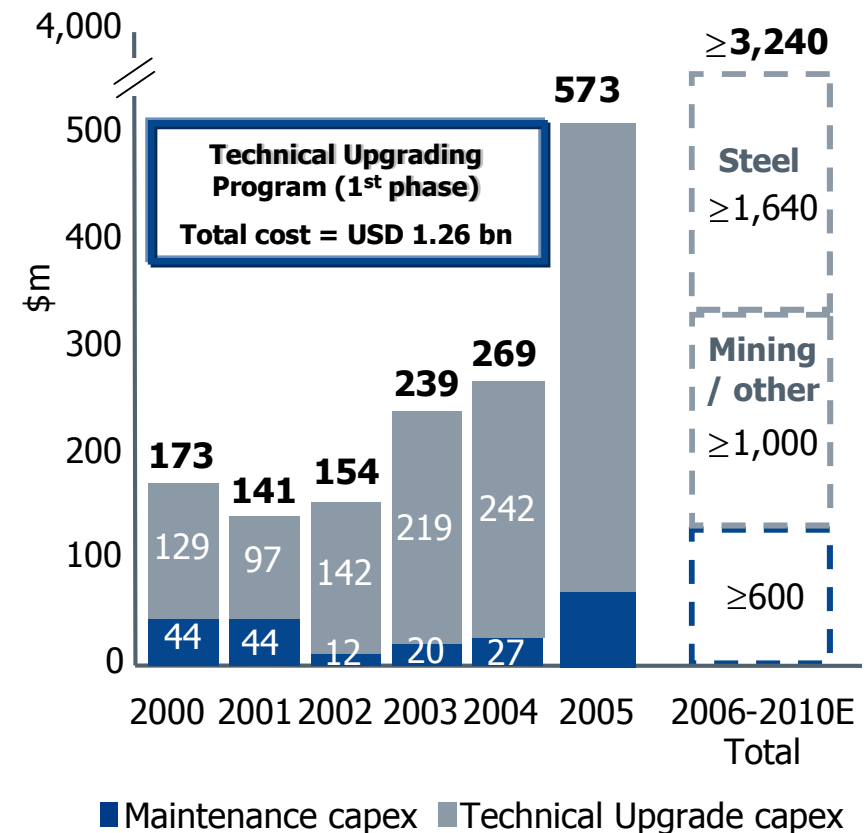
Technical Upgrading Program

2006-2010 Technical Upgrading Program

Principal objectives

- Increase crude steel capacity
- Develop high value-added products portfolio
- Reduce operating costs by reducing consumption of raw materials and energy
- Improve quality management system
- Strengthen focus on environmental and safety improvements

Capex



NLMK's Technical Upgrading Program is a disciplined investment approach supporting the long term development of the Company

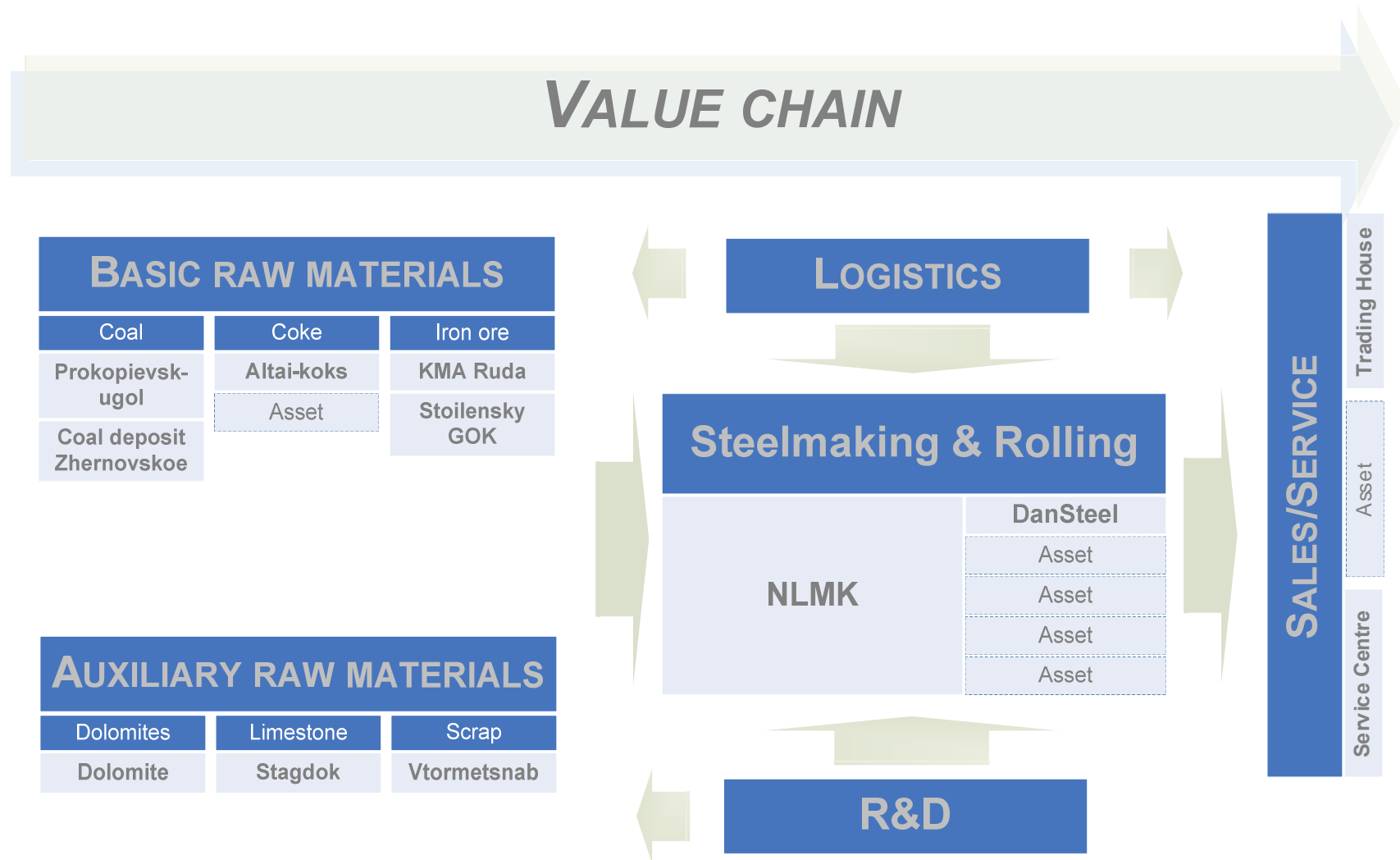


2006 Internal Restructuring Plan

- NLMK announced internal restructuring plan aimed at optimizing the asset portfolio of the Company, strengthening vertical integration and building up an efficient management structure.
- NLMK continues the effort of further consolidation of its core assets comprising steel, mining and supporting businesses and divestment of NLMK's stakes in non-core assets, including financial and transportation assets.
- The Corporate Centre consolidates the following functions of the Group under unified management:
 - ✓ Strategic planning
 - ✓ Finance
 - ✓ External relations
 - ✓ HR
 - ✓ Legal services
 - ✓ IT
 - ✓ Environmental activities
 - ✓ Corporate services
- The internal restructuring plan anticipates the development of the divisional management structure based on value chain business processes.



NLMK value chain

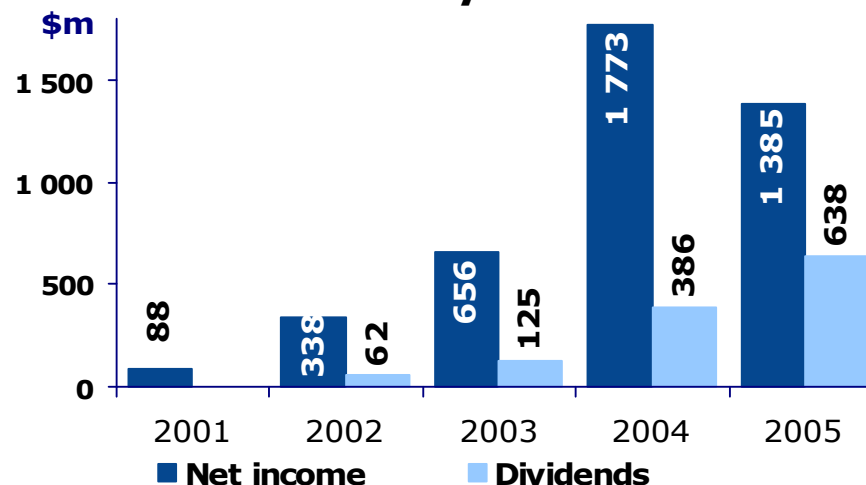


Dividend policy

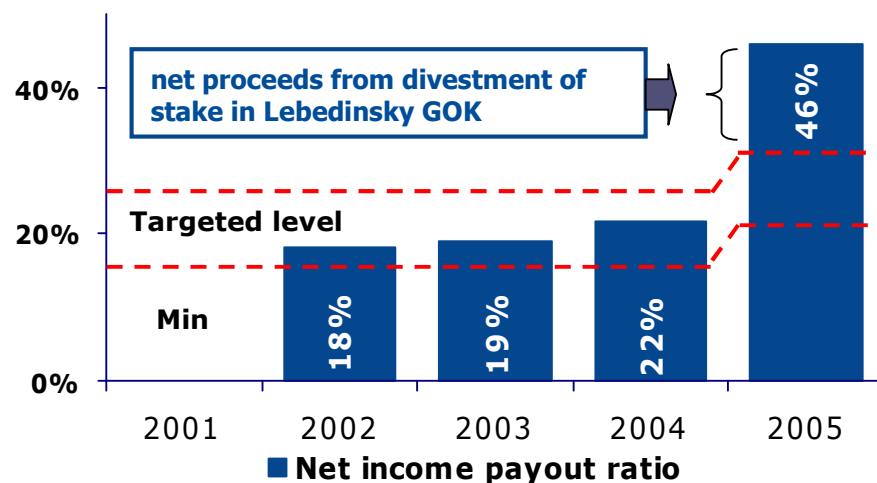
NLMK's Board of Directors proposes the following changes in the Group's dividend policy:

- increase minimum payout ratio from 15% to 20%
- target an average payout ratio during five year period of 30% of our annual net income (in accordance with US GAAP)
- cash proceeds from minority holdings divestments will be returned to the shareholders
- 2005 dividends already include USD 297.3 mln net proceeds from divestment of minority stake in Lebedinsky GOK in January 2006

Dividend history of NLMK



Net income payout ratio



Macroconditions for Growth



- Improved basic macroeconomic indicators. GDP grew 6% in 2005. Solid current account and budget surplus. Growth of gold and currency reserves. Stable rouble's exchange rate and decreasing inflation rate.
- Favorable market environment. Growing competitiveness of Russian companies in the steel sector. Increasing investments in R&D and modern technologies. Close liaison with the most dynamic and top priority branches of industry including construction, automotive and military sectors.
- Further integration of Russia into the world economy. WTO negotiations based on major conditions taking into consideration Russian economic interests. Increasing importance of the European Union as a biggest Russia's business partner.
- National projects targeting construction, automotive and military sectors provide long-term demand for flat steel products.

2006 Market Outlook



- ✓ We expect sales revenue will slightly exceed the level of 2005
- ✓ Increase in sales revenue from sales volumes growth and new assets add-up
- ✓ Operating profit and EBITDA will remain at the level of the previous year
- ✓ Divestment of the stake in Lebedinsky GOK will become the main factor of net income increase in 2006
- ✓ We are expecting to return to 2004 production levels
- ✓ Annual production will increase to 10.5 mln t of crude steel by 2010
- ✓ We will pursue strategic acquisition opportunities and further divestment of non-core assets
- ✓ Management will focus on improving EBITDA, the key benchmark of company's operating performance

Supplementary Materials



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

