

Q1 2013 Financial Results Presentation

20 May 2013





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Severstal 

**Q1 2013
Results Overview**

Q1 2013 Highlights

- Better performance q/q due to significant earnings growth at Severstal Resources and Severstal International
- Q1 revenue up 6.6% q/q to \$3,322m due to higher realized volumes at Severstal Russian Steel and Severstal International, as well as higher realized prices for iron ore at Severstal Resources
- Q1 EBITDA* up 21.1% q/q to \$425m (Q4 2012: \$351m) thanks to higher selling volumes at Severstal International and Severstal Russian Steel and higher realized prices for iron ore coupled with lower iron ore production costs at Severstal Resources. That helped offset decrease in the realized prices at Severstal Russian Steel and Severstal International, along with coking coal prices at Severstal Resources, and led to the increase in EBITDA margin of 1.5 ppts q/q to 12.8%
- Q1 2013 operating profit of \$222m (Q4 2012**): \$140m)
- Q1 2013 net profit*** of \$44m (Q4 2012: net loss of \$150m)
- Net debt increased slightly to \$4,186m from \$3,983m in Q4 2012. Net Debt/EBITDA at the end of Q1 was 2.1x. Solid liquidity position of \$1,552m in cash and cash equivalents
- Q1 2013 capex restrained to \$309m****, 34.1% lower than in the previous quarter
- In March 2013, Severstal successfully placed \$600m 5-year Eurobonds with an interest rate of 4.45%
- Recommended dividend payment of 0.43 roubles per share (approximately \$0.01) for the 3 months ended 31 March 2013

* EBITDA represents profit/(loss) from operations plus depreciation and amortization of productive assets adjusted for gain/(loss) on disposals of property, plant, equipment and intangible assets

** These amounts reflect adjustments made in connection with the change in classification of income and expenses related to finance operations between general and administrative expenses, gain/(loss) on remeasurement and disposal of financial investments and finance costs to more appropriately reflect their nature

*** Attributable to shareholders of OAO Severstal

**** Represents cash outflow on capex in the period.

Revenue Dynamics and Breakdown

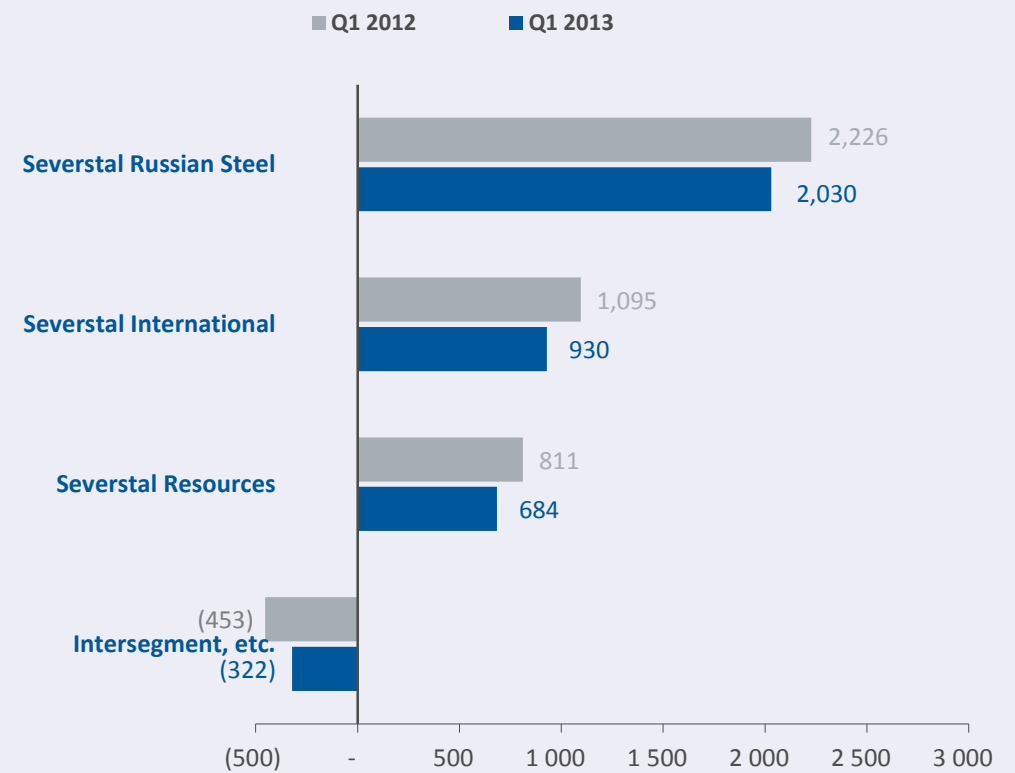
Q1 2013 Revenue: \$3,322m
(Q4 2012: \$3,116m; +6.6%)

Q/q revenue increase across divisions, driven by better iron ore prices at Severstal Resources and higher selling volumes at Severstal International and Severstal Russian Steel



Q1 2013 Revenue: \$3,322m
(Q1 2012: \$3,679m; -9.7%)

Revenue down y/y across the divisions due to contraction in global steel and bulks markets



EBITDA Dynamics and Breakdown

Q1 2013 EBITDA: \$425m
(Q4 2012: \$351m; +21.1%)

A noticeable q/q EBITDA increase, driven by strong performance from Severstal Resources and Severstal International



Q1 2013 EBITDA: \$425m
(Q1 2012: \$565m; -24.8%)

Contraction in Severstal Resources earnings was the major reason for y/y decline in EBITDA, while Severstal Russian Steel was slightly better y/y

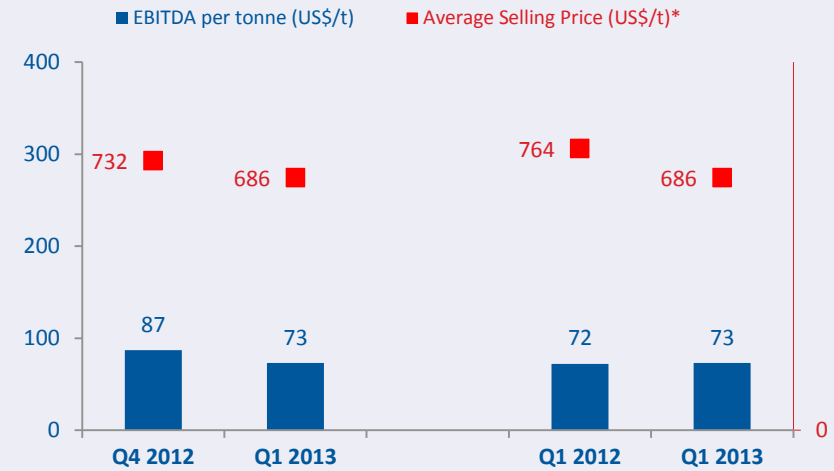




Divisional Performance and Market Outlook

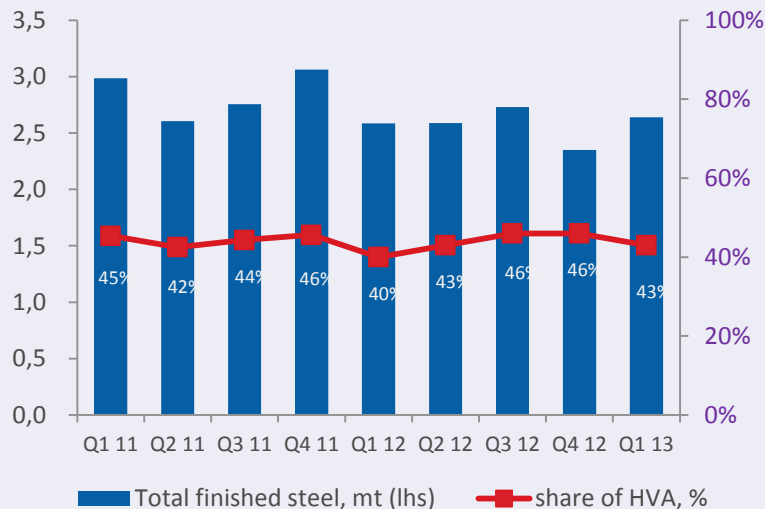
- Q1 revenue up 5.2% q/q to \$2,030m (Q4 2012: \$1,929m) on higher realized volumes. Q1 2013 revenue was down 8.8% y/y (Q1 2012: \$2,226 million)
- Q1 EBITDA down 5.4% q/q to \$193m (Q4 2012: \$204m) with EBITDA margin down to 9.5% due to seasonally higher sales to the export markets. Y/y Q1 2013 EBITDA slightly increased (Q1 2012: \$189 million)
- Share of high-value-added (HVA) products seasonally down q/q to 43%. Year-on-year, however, the share of HVA products went up 3 pts from 40% in Q1 2012
- Share of sales volumes to the domestic market seasonally decreased to 56% in Q1 2013 from 65% in Q4. Year-on-year, however, the share of sales volumes to the internal market went up 3 pts from 53% in Q1 2012

EBITDA per tonne and average selling price

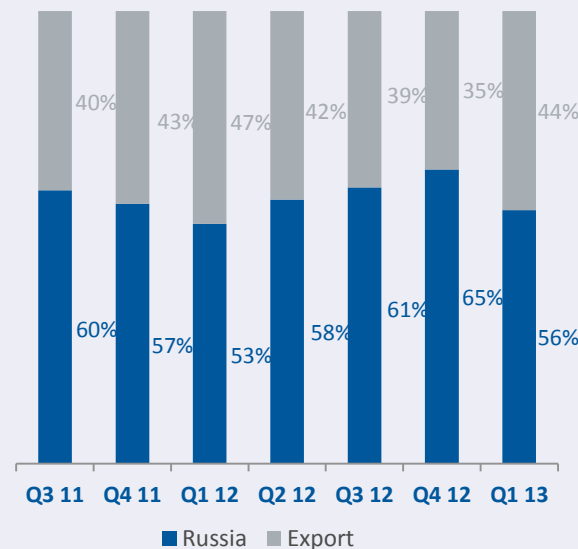


*All steel products, incl. pipes, etc.; Ex Works price terms.

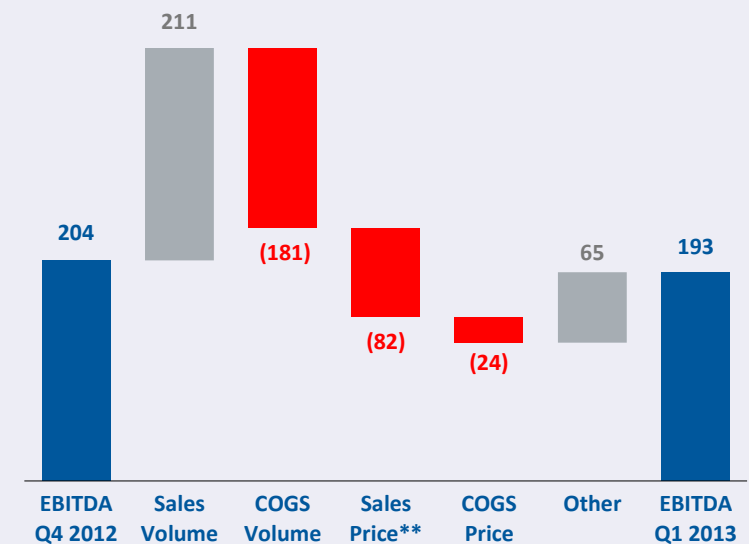
Share of high-value-added products*** in total steel shipments, %



Steel sales volumes by destination, %



EBITDA drivers in Q1 2013, \$m

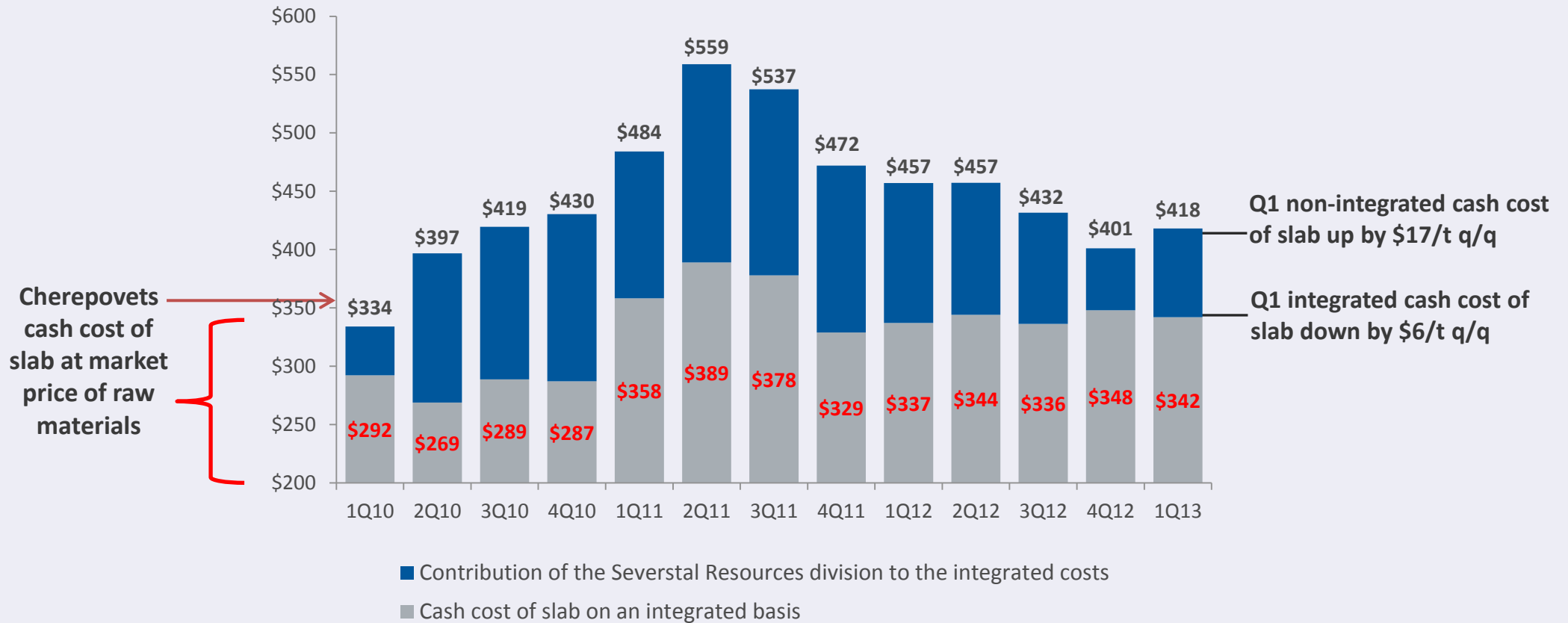


** Excluding foreign exchange effect.

*** High-value-added comprises: plate; cold-rolled, galvanized and metallic coated, color coated sheet; metalware; large-diameter and other pipes.

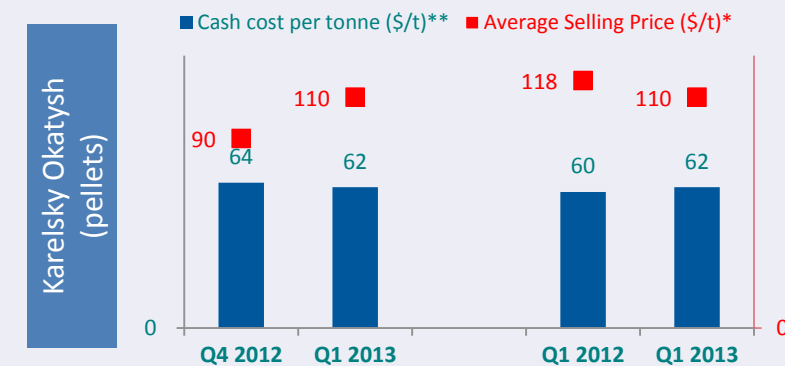
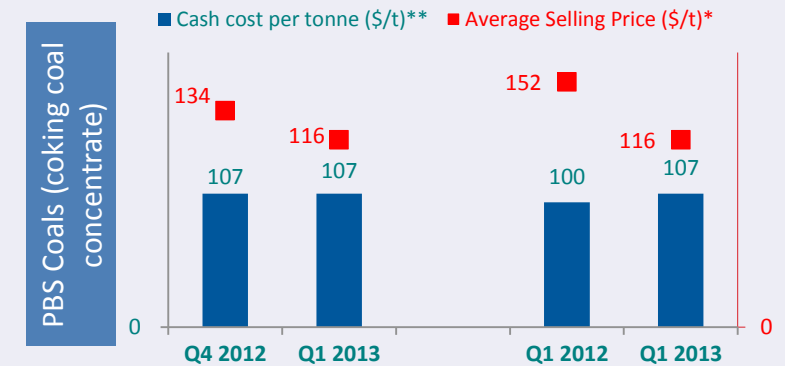
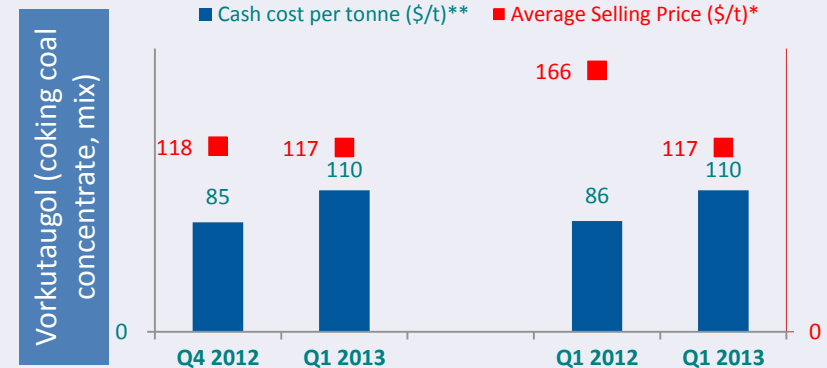
Cost Control at Severstal Russian Steel

Cherepovets Steel Mill production cash cost of slab, \$/t

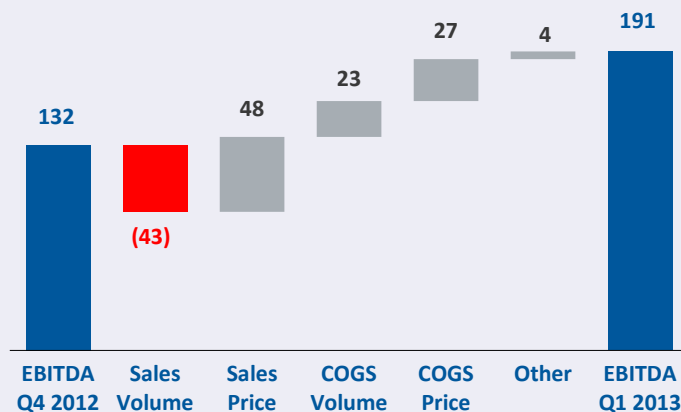


- Q1 revenue up 1.6% q/q to \$684m (Q4 2012: \$673m) on higher iron ore realized prices. On a y/y basis Q1 2013 revenue was down 15.7% (Q1 2012: \$811 million)
- Q1 EBITDA of \$191m up by 44.7% q/q (Q4 2012: \$132m) due to higher iron ore realized prices and lower unit costs at the iron ore businesses. On a y/y basis Q1 2013 EBITDA was 40.7% lower (Q1 2012: \$322 million)
- Total cash costs at iron ore units normalized in Q1 2013 as compared to Q4 2012 with unit cash costs at Karelskiy Okatysh down to \$62/t (Q4 2012: \$64/t) and at Olkon to \$53/t (Q4 2012: \$60/t)
- Unit cash costs at PBS remained stable at \$107/t (Q4 2012: \$107/t), while Vorkuta experienced a unit cost spike to \$110/t (Q4 2012: \$85/t) due to lower raw coal production. We anticipate coking coal production at Vorkuta to increase in Q2 which will translate in lower unit cash costs

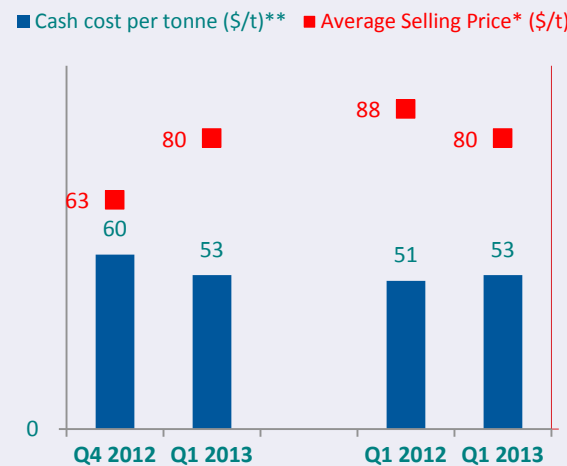
Average selling price and cash cost per tonne



EBITDA drivers in Q1 2013, \$m



Olkon (iron ore concentrate)

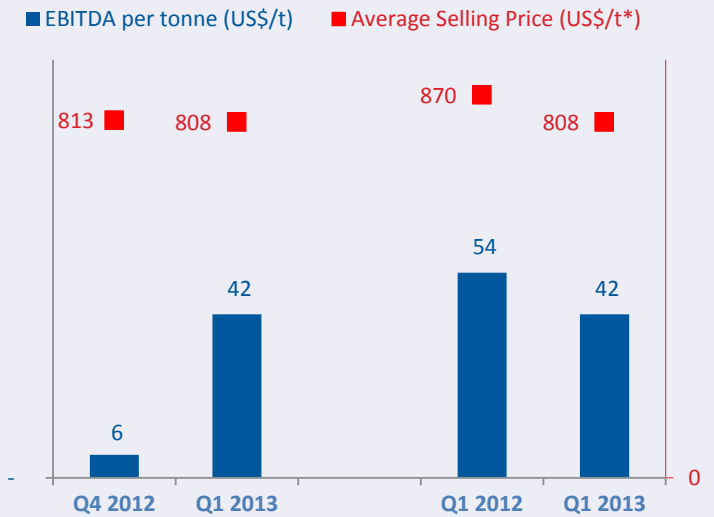


** Cash costs per tonne represent difference between Price/t and EBITDA/t

*Free carrier price terms.

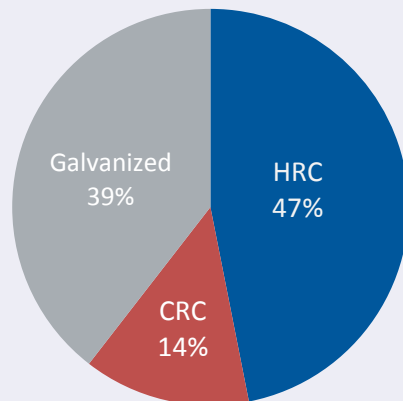
- Q1 SNA revenue of \$930 million (Q4 2012: \$810 million), was up 14.8% q/q. Year-on-year Q1 2013 revenue was down 15.1% (Q1 2012: \$1,095 million)
- Q1 EBITDA up almost 8 times q/q to \$47 million thanks to a 15.1% q/q increase in sales volumes. Year-on-year Q1 2013 EBITDA was down 28.8% (Q1 2012: \$66 million)
- Q1 EBITDA margin increased to 5.1% (Q4 2012: 0.7%). In the meantime EBITDA per tonne increased q/q to \$42 from \$6 in Q4 2012
- As for the end user markets automotive sales in Q1 2013 remained high over 15 million units. Overall construction spending in Q1 was up 4.7% y/y. The US Rig count was down 10.2% y/y in Q1, however demand from energy sector remains robust with expectations of further improvement driven by shale and gas drilling activities

EBITDA per tonne and average selling price

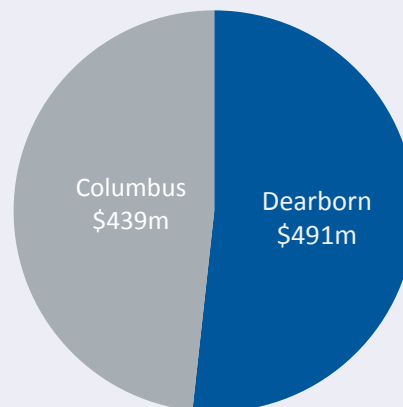


*All steel products, mixed price terms, resulting ex works.

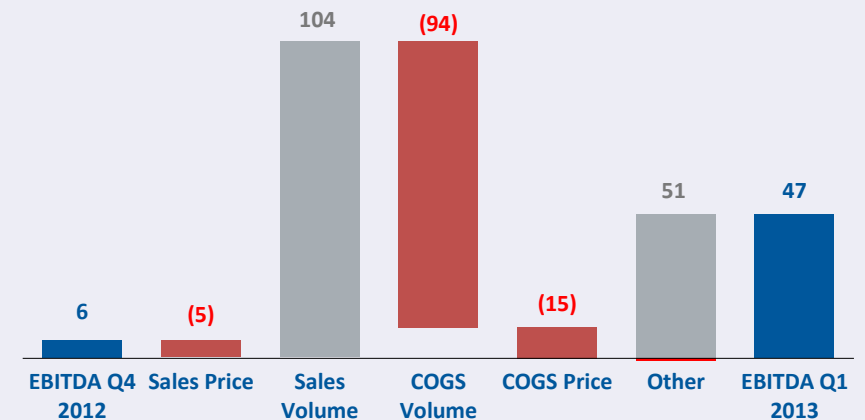
Q1 2013 steel revenue by product



Q1 2013 revenue by plant



EBITDA drivers in Q1 2013, \$m





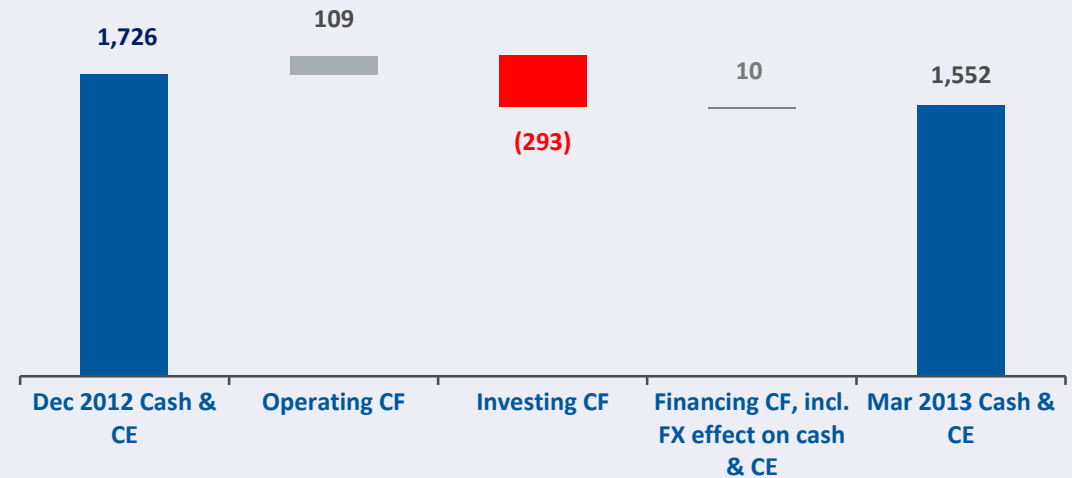

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Financial Position

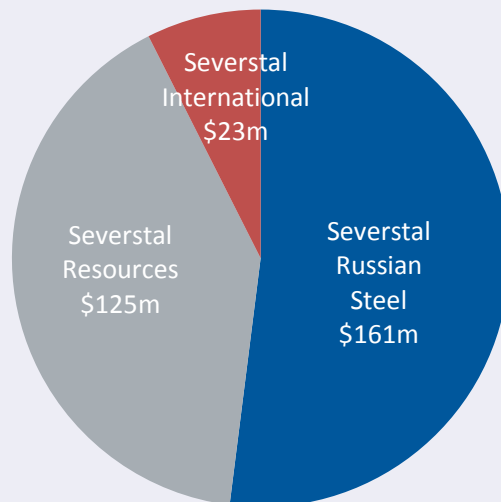
Cash Flow and Net Working Capital

Highlights:

- Liquidity position of \$1,552m in cash and cash equivalents
- Operating cash flow of \$109m
- CAPEX of \$309m*
- Net working capital up 6.9% comparing to the beginning of the year and NWC/LTM revenue up by 1.4 ppts



Q1 2013 CAPEX* breakdown, \$m



Net Working Capital developments

Net working capital, \$m

March 31, 2013	December 31, 2012	Change, %
2,188	2,046	6.9%

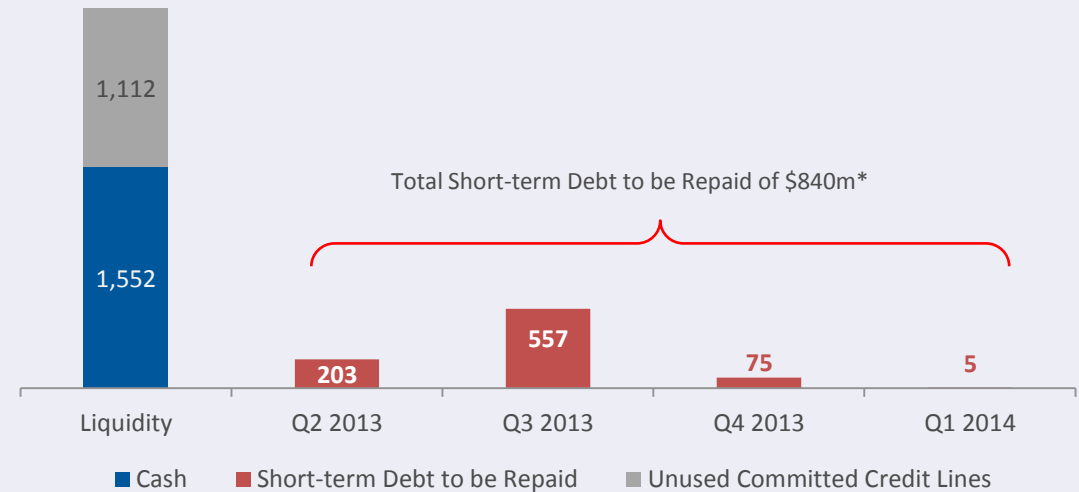
Net working capital as % of revenues

March 31, 2013	December 31, 2012	Change, ppts
15.9%	14.5%	1.4 ppts

* Represents cash outflow on capex in the period.

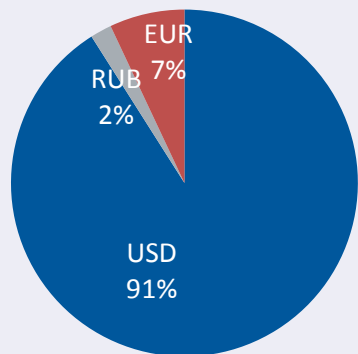
Robust Liquidity and Sustainable Leverage

- Solid liquidity position:
 - Cash and cash equivalent of \$1,552m
 - Committed unused credit lines of \$1,112m
- Upcoming short-term debt maturities serviced with available liquidity of \$2,664m:
 - Q2 2013 repayments of \$203m
 - Short-term debt amounts to \$840m
- Net Debt/EBITDA up to 2.1x, net debt slightly increased to \$4,186m

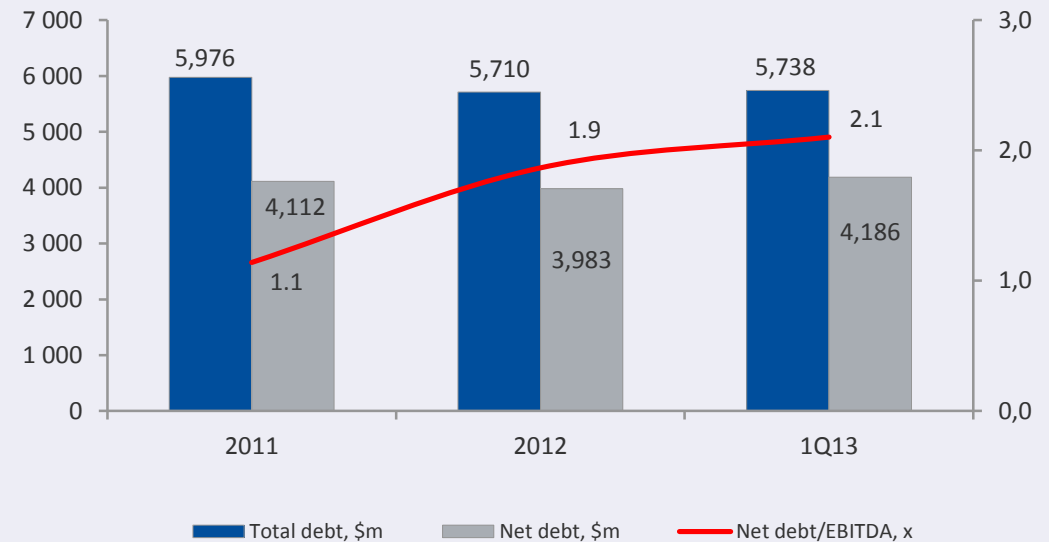
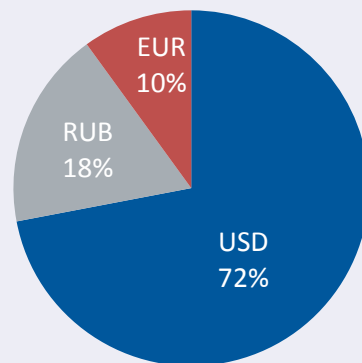


* Represents principal amount of debt.

Q1 2013 debt currency mix



Q1 2013 cash currency mix

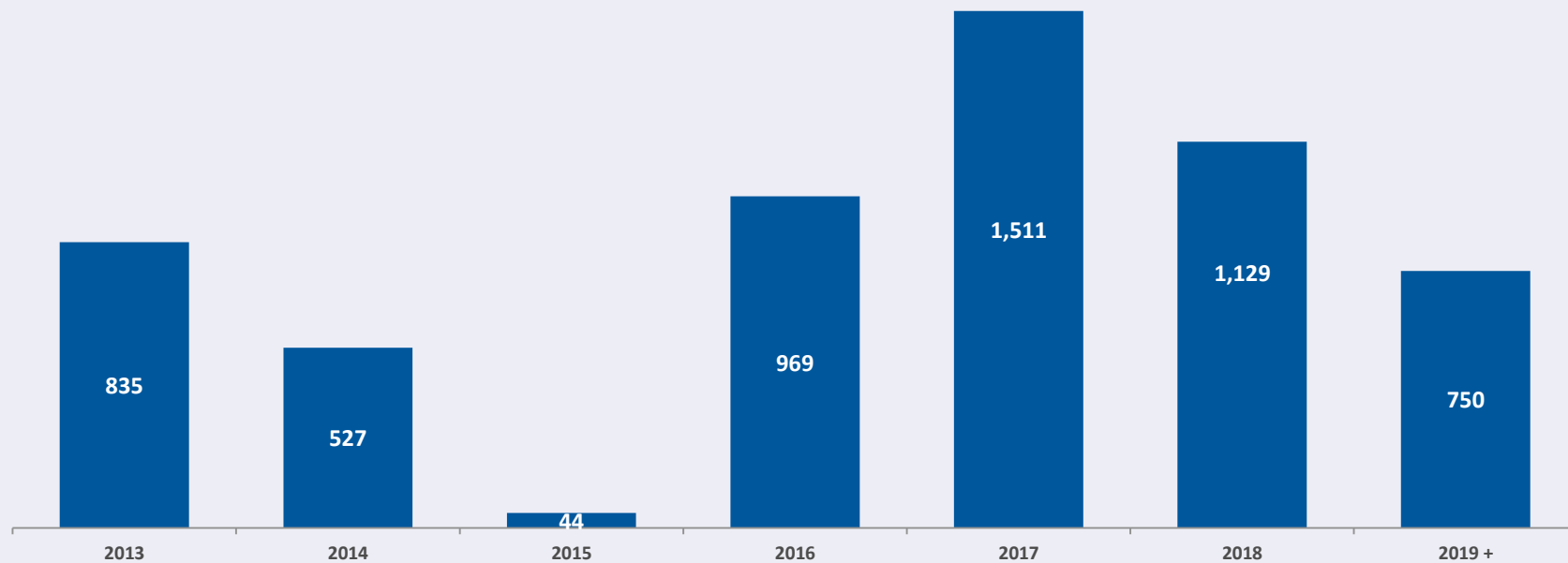


On this chart figures exclude Gold segment's balances

Debt Structure

As at 31.03.2013 the debt structure remains broadly unchanged and is dominated by public debt (83% of total) and US dollar (91% of total)

Debt Maturity Schedule, \$m



Global:

- Global steel demand is expected to improve by 3% in 2013 on the back of investments in China, revival of consumer spending and energy development in the USA, infrastructure projects in the Middle East...
- ... that said, global steel overcapacity continues to drag on the industry, depressing prices in Q2 and limiting visibility on the recovery in 2H 2013
- Chinese steel production in Q1 13 up 8% y/y. This level is considered unsustainable and will be lower in the remaining part of the year at 3-6%

Russia:

- Russian 2013 GDP growth forecast cut by the Ministry of Economic Development to 2.4%. Slowdown in the Russian economy due to export and investment stagnation from worsening global economic trends while consumer spending is steady, fueled by credit growth and lower inflation
- Steel demand in Russia to increase in 2013 driven by higher demand from the pipe & tube and construction industries

USA:

- US consumer spending reached 2-year record high on the back of housing market recovery and lower unemployment, resulting in 3% GDP growth in Q1 13
- Construction and automotive sectors remain the major drivers of steel demand in the US. Demand from energy sector remains robust with expectations of further improvement driven by shale and gas drilling activities



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Thank you. Q&A



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Appendices

Summary Income Statement

\$ million, unless otherwise stated	Q1 2013	Q4 2012**	Q1 2012**
Revenue	3,322	3,116	3,679
COGS	(2,625)	(2,475)	(2,816)
EBITDA*	425	351	565
EBITDA margin, %	12.8%	11.3%	15.4%
Profit from operations	222	140	387
Operating margin, %	6.7%	4.5%	10.5%
Profit/ (loss) before income tax	94	(6)	384
Net profit/(loss)***	44	(150)	427
Basic EPS, \$	0.05	(0.19)	0.46
Dividend per share, \$****	0.01	0.06	0.13

* EBITDA represents profit /(loss) from operations plus depreciation and amortization of productive assets adjusted for gain/(loss) on disposals of property, plant, equipment and intangible assets

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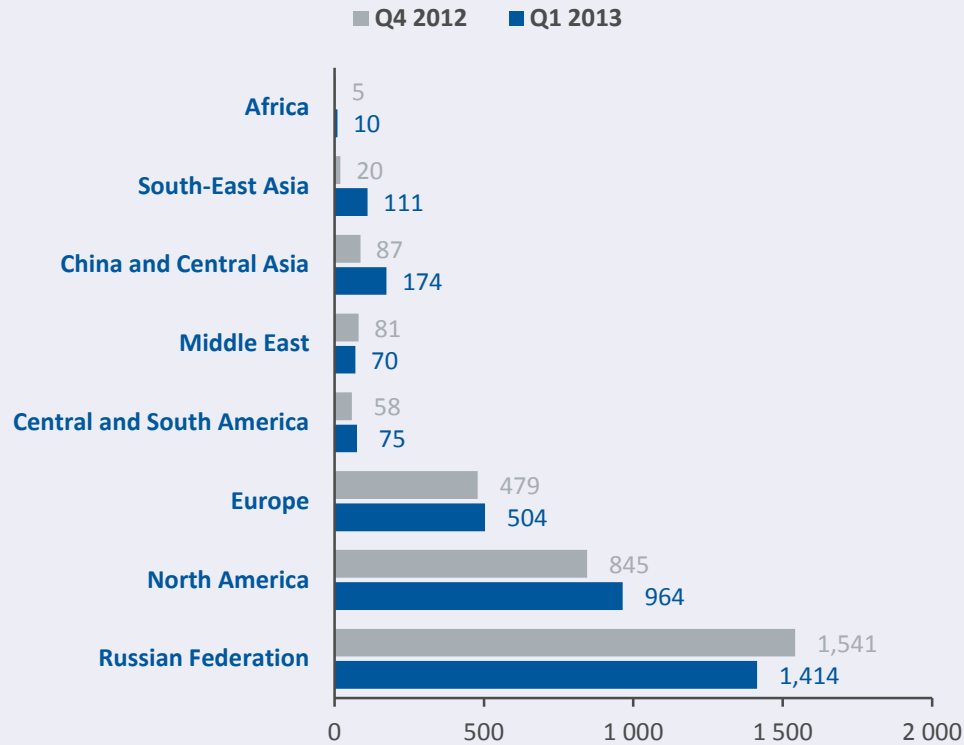
*** Attributable to shareholders of OAO Severstal

**** Dividends announced on the basis of respective period results, translated at the exchange rate as of the date of recommendation by Board of Directors. Dividends for FY2012 and Q1 2013 need to be approved by AGM on June 13, 2013

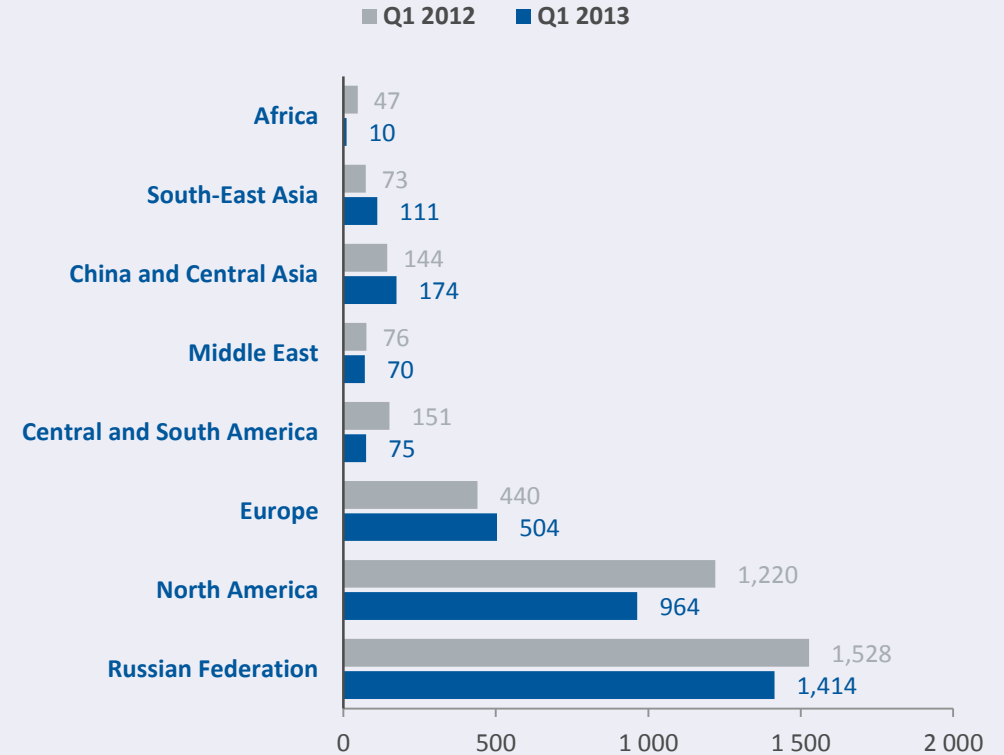


Q1 2013 Revenue Breakdown by Region

Q1 2013/Q4 2012, \$m



Q1 2013/Q1 2012, \$m



Q1 2013 Highlights:

- Lower revenue from Russia due to seasonally weaker demand and higher export sales
- Increase in North America sales on higher sales volumes at Severstal International
- Sales to most of the other regions went up reflecting seasonally weaker demand in Russia and thus higher export supplies

Q1 2013 Division Results



Severstal Russian Steel	Q1 2013	Q4 2012**	Change, %	Q1 2013	Q1 2012**	Change, %
Revenue (\$m)	2,030	1,929	5.2%	2,030	2,226	(8.8%)
Cost of sales (\$m)	(1,602)	(1,512)	6.0%	(1,602)	(1,792)	(10.6%)
G&A and distribution (\$m)	(306)	(283)	8.1%	(306)	(318)	(3.8%)
G&A and distribution as % of revenue	15.1%	14.7%	0.4 ppts	15.1%	14.3%	0.8 ppts
EBITDA (\$m)	193	204	(5.4%)	193	189	2.1%
Operating Profit (\$m)	99	114	(13.2%)	99	107	(7.5%)
EBITDA Margin, %	9.5%	10.6%	(1.1 ppts)	9.5%	8.5%	1.0 ppts
EBITDA per tonne (\$/t)	73	87	(16.1%)	73	72	1.4%
Average Selling Price (US\$/t*)	686	732	(6.3%)	686	764	(10.2%)

*All steel products, incl. pipes, etc.; Ex Works price terms

Severstal International	Q1 2013	Q4 2012**	Change, %	Q1 2013	Q1 2012**	Change, %
Revenue (\$m)	930	810	14.8%	930	1,095	(15.1%)
Cost of sales (\$m)	(906)	(802)	13.0%	(906)	(1,049)	(13.6%)
G&A and distribution (\$m)	(26)	(24)	8.3%	(26)	(26)	-
G&A and distribution as % of revenue	2.8%	3.0%	(0.2 ppts)	2.8%	2.4%	0.4 ppts
EBITDA (\$m)	47	6	683.3%	47	66	(28.8%)
Operating Profit/(Loss) (\$m)	3	(40)	N.A.	3	22	(86.4%)
EBITDA Margin, %	5.1%	0.7%	4.4 ppts	5.1%	6.0%	(0.9 ppts)
EBITDA per tonne (\$/t)	42	6	600.0%	42	54	(22.2%)
Average Selling Price (US\$/t*)	808	813	(0.6%)	808	870	(7.1%)

Q1 2013 Division Results (Continued)



Severstal Resources

	Q1 2013	Q4 2012*	Change, %	Q1 2013	Q1 2012*	Change, %
Revenue (\$m)	684	673	1.6%	684	811	(15.7%)
Cost of sales (\$m)	(432)	(468)	(7.7%)	(432)	(412)	4.9%
G&A and distribution (\$m)	(107)	(129)	(17.1%)	(107)	(116)	(7.8%)
G&A and distribution as % of revenue	15.6%	19.2%	(3.6 pts)	15.6%	14.3%	1.3 pts
EBITDA (\$m)	191	132	44.7%	191	322	(40.7%)
Operating Profit (\$m)	125	56	123.2%	125	269	(53.5%)
EBITDA Margin, %	27.9%	19.6%	8.3 pts	27.9%	39.7%	(11.8 pts)

* These amounts reflect adjustments made in connection with the change in classification of income and expenses related to finance operations between general and administrative expenses, gain/(loss) on remeasurement and disposal of financial investments and finance costs to more appropriately reflect their nature

Summary Balance Sheet

\$ million	As at 31 March 2013	As at 31 December 2012
Cash and Cash Equivalents	1,552	1,726
Total Assets:	15,417	15,707
Current Assets	5,559	5,697
Non-current Assets	9,858	10,010
Total Liabilities:	8,298	8,492
Current Liabilities	2,683	3,370
Non-current Liabilities	5,615	5,122
Total Equity	7,119	7,215
Total Equity and Liabilities	15,417	15,707

Summary Cash Flow Statement

\$ million	Q1 2013	Q4 2012*	Q1 2012*
Profit before Financing and Taxation	202	67	359
Cash Generated from Operations	235	454	568
Interest Paid	(113)	(80)	(139)
Income Tax Paid	(13)	(47)	(67)
Net cash from operating activities – continuing operations	109	327	362
Net cash used in operating activities – discontinued operations	-	-	(8)
Net cash from Operating Activities	109	327	354
Total cash (used in)/from Investing Activities , incl.	(293)	(486)	73
Additions to PP&E and IA	(309)	(469)	(278)
Cash from/(used in) Financing Activities	23	(249)	(149)
Effect of Exchange Rate on Cash and Cash Equivalents	(13)	13	60
Net (decrease)/increase in Cash and Cash Equivalents	(174)	(395)	338
Less change in Cash and CE of discontinued operations	-	-	42
Cash and Cash Equivalents at beginning of the Period	1,726	2,121	1,864
Cash and Cash Equivalents at end of the Period	1,552	1,726	2,244

* These amounts reflect adjustments made in connection with the change in classification of income and expenses related to finance operations between general and administrative expenses, gain/(loss) on remeasurement and disposal of financial investments and finance costs to more appropriately reflect their nature

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