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Q4 and FY 2014 Financial Results Presentation

18 February 2015

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Q4 and FY 2014 Results Overview

Summary

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Q4 and FY14 Highlights:

- Coupled with a decent y/y increase in EBITDA* Severstal turned into one of the global leaders in terms of profitability with EBITDA margin of 26.6% (FY13: 19.3%**). Group profitability has been positively affected by Severstal decision to divest Severstal North America. The deal has been completed in September 2014 with substantial portion of the proceeds being paid out in Q4 in form of special dividend while another one provided the company with an ability to proactively proceed with deleveraging
- FY14 revenue decreased 12.1% y/y to $8,296m (FY13: $9,434m**) as a result of weaker selling prices across the Group's product mix. Q4 revenue down 16.2% q/q to $1,878m notwithstanding constantly high share of HVA products sales as well as growth in raw materials sales volumes
- FY14 EBITDA increased 21.2% y/y to $2,203m (FY13: $1,818m**) driven by a strong result at Russian Steel on the back of operational enhancements, lower input costs and RUB devaluation, more than offsetting lower deliveries at Resources. Q4 EBITDA decreased 5.3% q/q to $602m (Q3 2014: $636m)
- Group EBITDA margin expanded further 3.7 ppts q/q to 32.1% (Q3 14: 28.4 %), primarily reflecting a combination of ongoing efficiency improvements at both Russian Steel and Resources as well as lower input costs and RUB devaluation mitigating the impact of lower selling prices
- Continuous robust free cash flow generation of $425m (Q3 14: $218m) and of $1,232m for FY14
- FY14 net loss*** $1,602m (FY13 net profit***: $83m), has been impacted by FX losses of continuing operations of $1,807m , impairments for continuing and discontinued operations of $1,222m and a gain on disposal of $101m of the discontinued operation. Excluding these non-cash items, Severstal would have posted a net profit of $1,326m (FY 2013: net profit of $749m)
- Net Debt/EBITDA ratio increased q/q in line with Company's expectations to 0.7x at the end of Q4 (Q3 2014: 0.4x) after special dividend payout
- FY14 capex**** of $779m, 28.1% down y/y (FY13: $1,084m**). Q4 2014 capex of $157m, 13.3% lower q/q reflecting our prudent capex approach
- Recommended dividend payment of 14.65 roubles per share for the 12 months ended 31 December 2014

* EBITDA represents profit/(loss) from operations plus depreciation and amortization of productive assets (including the Group's share in depreciation and amortization of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and for share in associates' and joint ventures' non-operating income/(expenses)

** These amounts reflect adjustments made in connection with the presentation of the discontinued operation

*** Net profit/ (loss) attributable to shareholders of PAO Severstal.

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

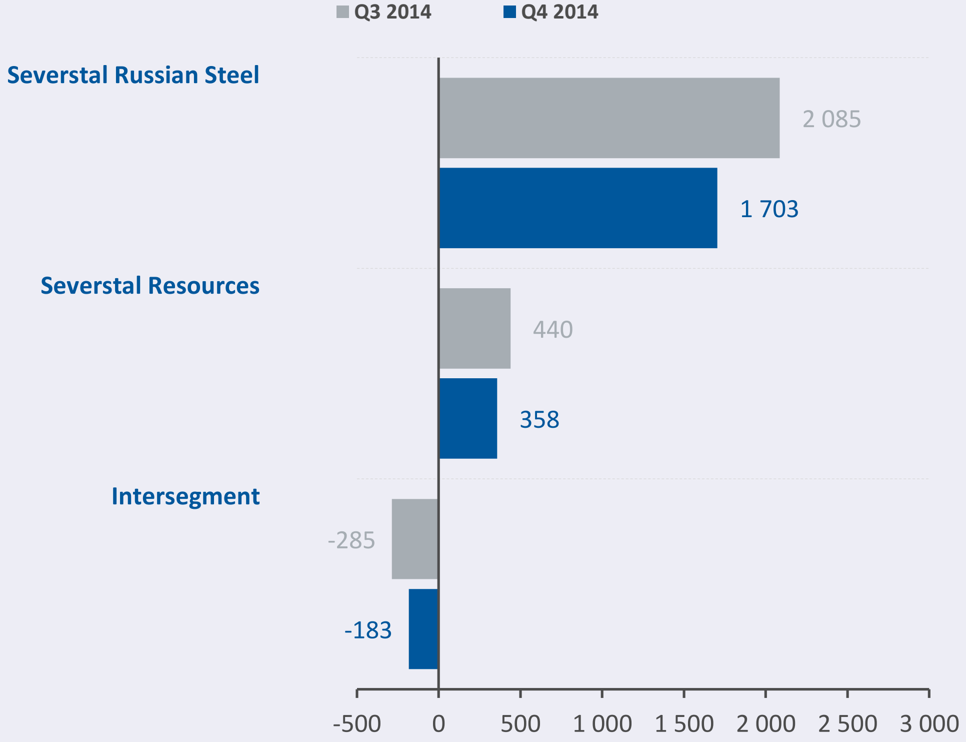
Revenue Dynamics and Breakdown

Severstal

Q4 2014 Revenue: $1,878m

(Q3 2014: $2,240m; -16.2%)

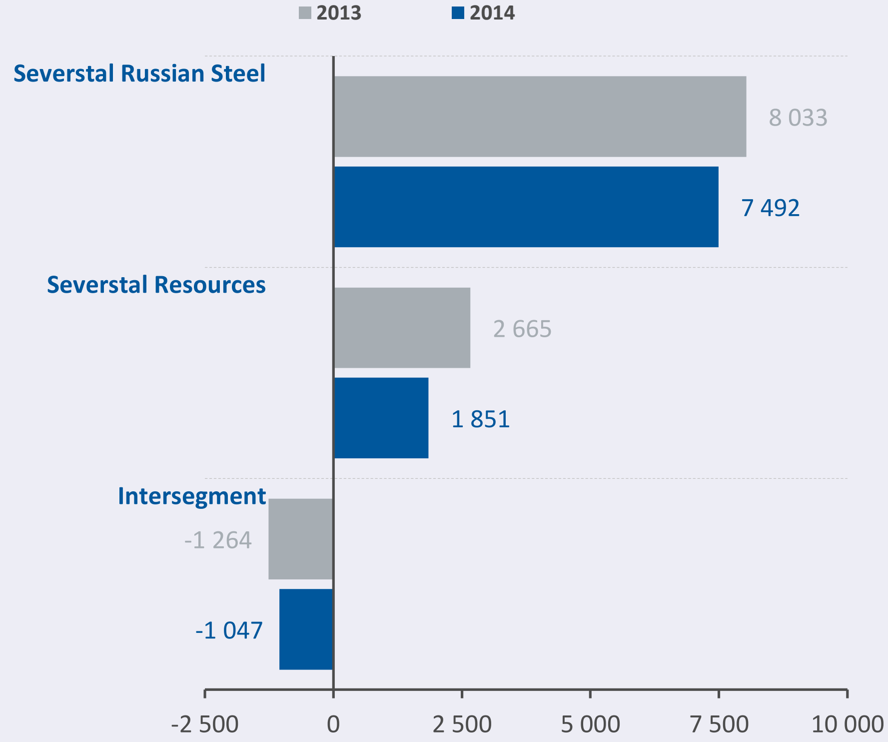
Despite high share of HVA products at Russian Steel as well as significant sales volumes growth at Resources, Group revenue decreased q/q reflecting average selling prices decline on the back of sharp RUB devaluation



FY 2014 Revenue: $8,296m

(FY 2013: $9,434m*; -12.1%)

Despite substantial improvements in product mixes, both Russian Steel and Resources saw decreases in revenues y/y on lower realized prices and sales volumes



* These amounts reflect adjustments made in connection with the presentation of the discontinued operation

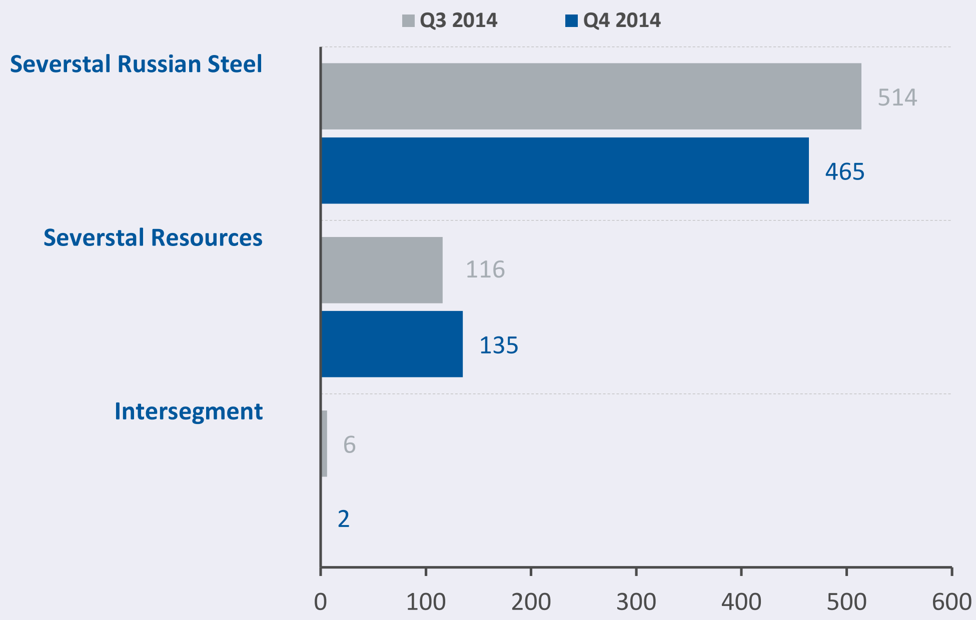
EBITDA Dynamics and Breakdown

Severstal

Q4 2014 EBITDA: $602m

(Q3 2014: $636m; -5.3%)

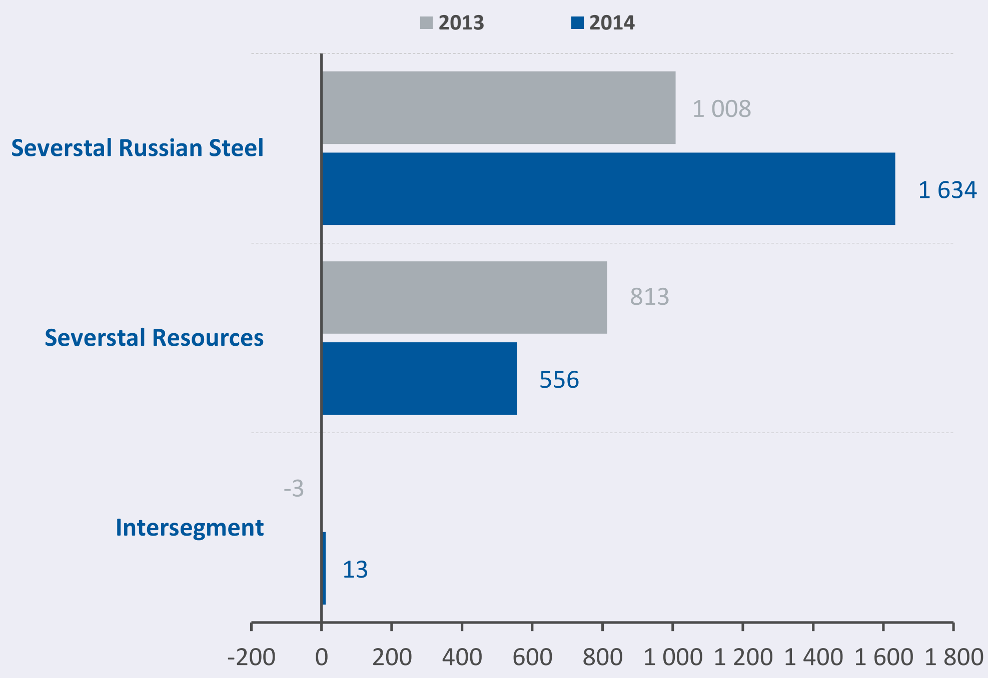
Group EBITDA margin* expanded q/q driven by efficiency improvements at Russian Steel accompanied by lower input costs and RUB devaluation mitigating effect of prices decline. Robust group numbers continue to demonstrate benefits of prudent vertical integration



FY 2014 EBITDA: $2,203m

(FY 2013: $1,818m**; +21.2%)

EBITDA improvement y/y reflects robust results of Russian Steel on the back of operational enhancements, lower input costs and RUB devaluation, offsetting temporarily weaker deliveries at Resources



* The Group Q4 2014 EBITDA margin was 32.1%

** These amounts reflect adjustments made in connection with the presentation of the discontinued operation

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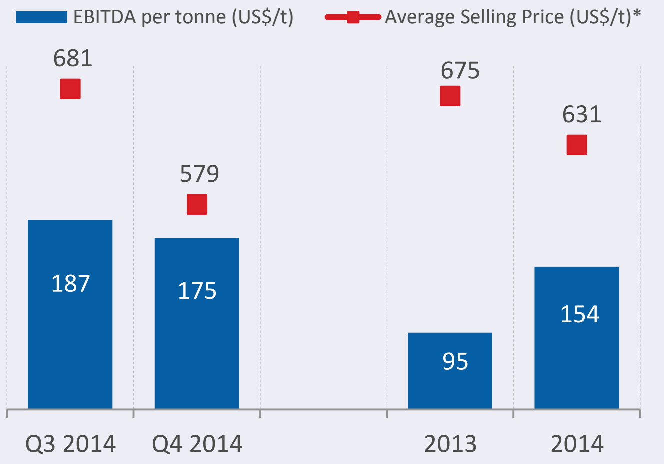
Divisional Performance and Market Outlook

Severstal Russian Steel (RSD)

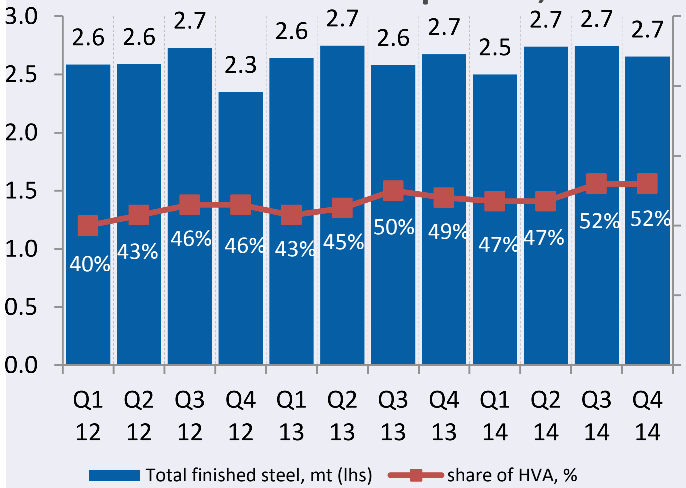
- Due to seasonal factors as well as marginal change to the product mix coupled with short-term maintenance at one of the mills RSD steel products sales decreased 3% q/q
- Share of high value-added products in the sales portfolio remained around historical record levels of 52% (Q3 14: 52%). Downstream products sales volumes increased 6% q/q (sales of large diameter pipes increased 23% q/q)
- Q4 revenue decreased 18.3% q/q to $1,703m (Q3 14: $2,085m) due to lower steel prices. Despite seasonally low market, RUB-denominated prices continue to catch up with the export USD-denominated parity. FY14 revenue reduced 6.7% y/y
- Q4 EBITDA of $465m was 9.5% lower q/q (Q3 14: $514m) as effect of selling prices decline has been largely mitigated by lower raw materials prices. EBITDA margin expanded 2.6 ppts to 27.3%. FY14 EBITDA of $1,634m was 62.1% higher than in FY13 ($1,008m) due to cost reduction initiatives, higher sales of HVA products and RUB devaluation
- In Q4 Cherepovets total non-integrated cash cost of slab decreased $72/t q/q due to lower raw materials prices and higher share of pig iron used in steelmaking process substituting high cost scrap, as well as additional positive effect on the back of RUB devaluation. Q4 integrated cash cost of slab decreased $77/t q/q to $203/t due to improved profitability of Severstal Resources offsetting lower prices

EBITDA per tonne and average selling price



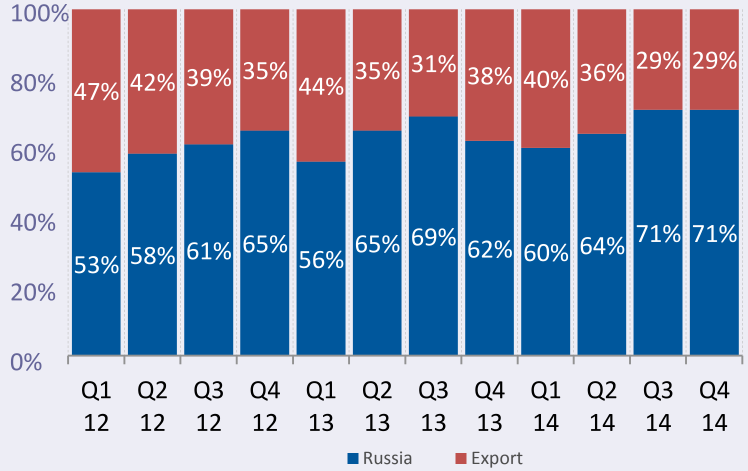
*All steel products, incl. pipes, etc.; Ex Works price terms.

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

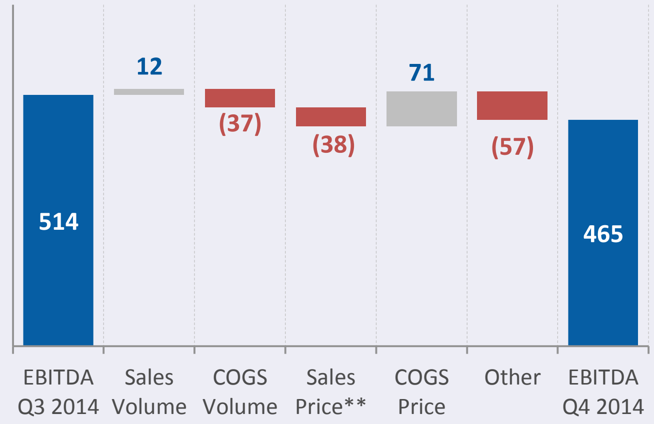


*** High-value-added comprises: plate; cold-rolled , galvanized and metallic coated, color coated sheet; metalware; large-diameter and other pipes.

Steel sales volumes by destination, %



EBITDA drivers in Q4 2014, $m



** Excluding foreign exchange effect.

Cost Control at Severstal Russian Steel

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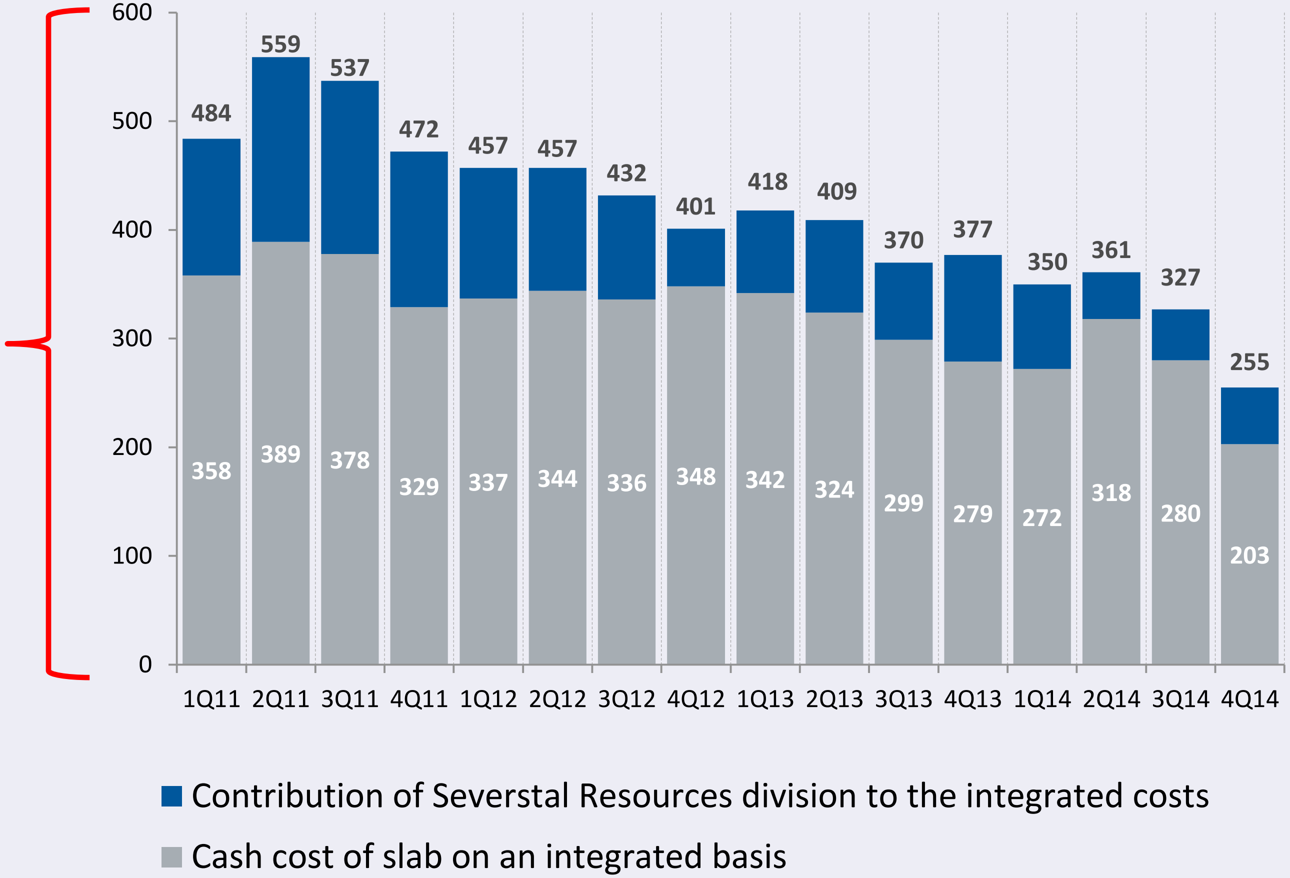
Cherepovets Steel Mill production cash cost of slab, $/t

Cherepovets cash cost of slab at market price of raw materials



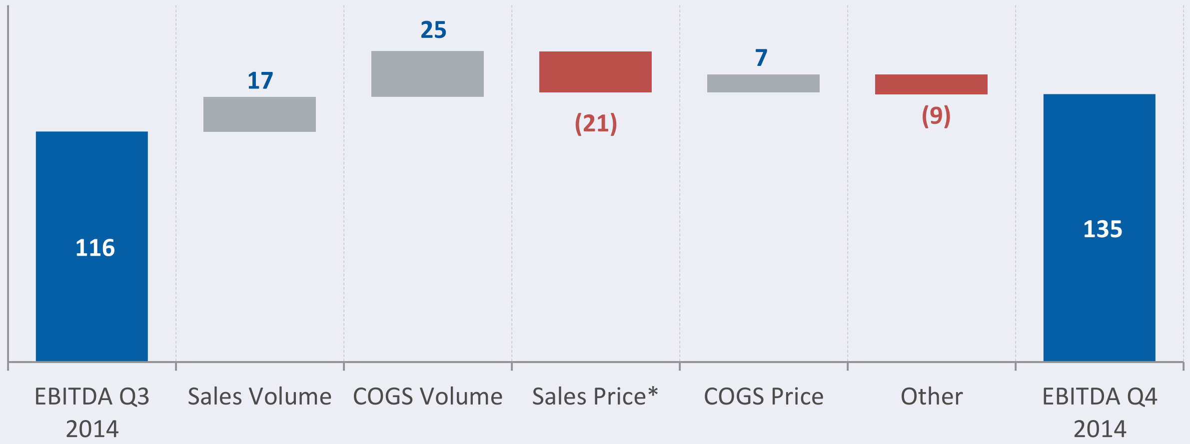
Q4 14 non-integrated cash cost of slab down $72/t q/q

Q4 14 integrated cash cost of slab down $77/t q/q

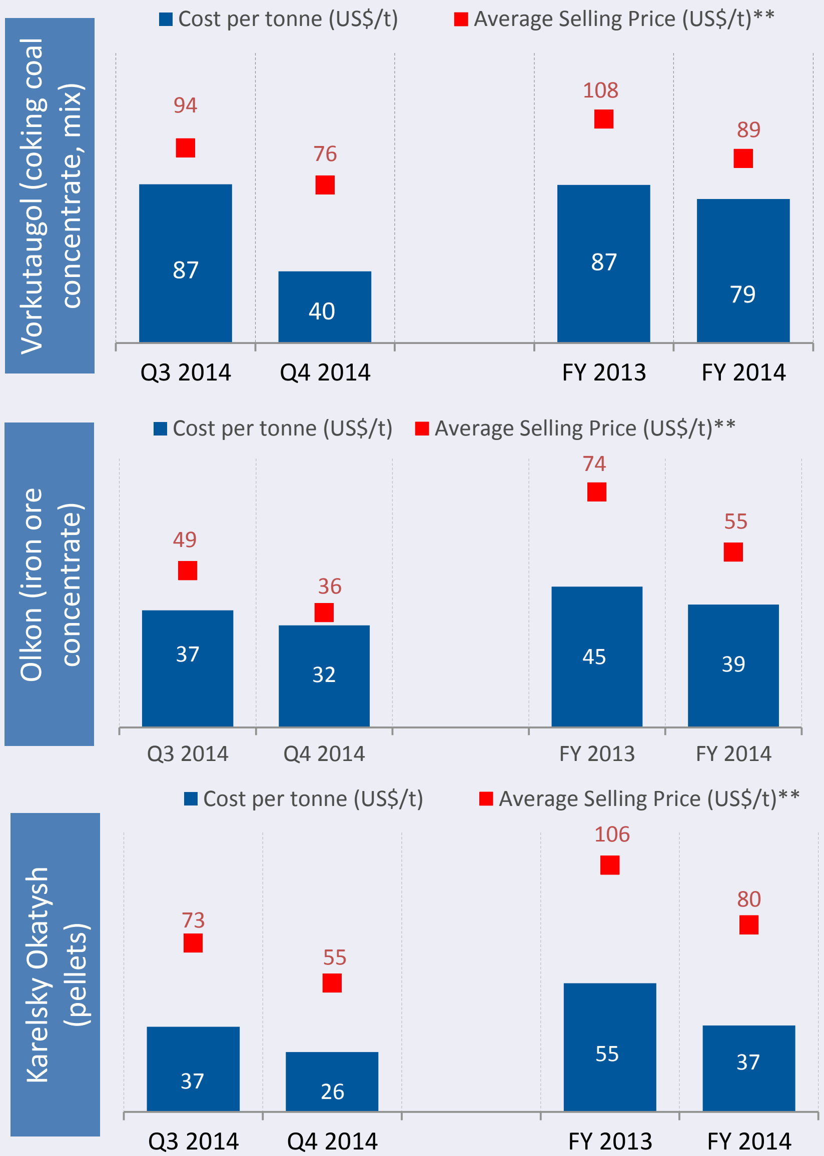
Severstal Resources

- Q4 revenue 18.6% lowered q/q to $358m (Q3 14: $ 440m) largely driven by decline in average selling prices for iron ore pellets and concentrate (decreased 25% q/q and 27% q/q, respectively). Partially offset by 14% q/q increase in coking coal concentrate sales volumes, despite iron ore concentrate sales volumes decrease of 14% q/q. FY14 revenue of $1,851m was 30.5% lower y/y (FY13: $2,665m)
- Q4 EBITDA of $135m up 16.4% q/q (Q3 14: $116m) with EBITDA margin improving 11.3 ppts to 37.7% owing to better performance of Vorkutaugol. Moreover, Severstal idled one of the open pits at Olkon focusing on the least costly deposits. FY14 EBITDA of $556m decreased 31.6% y/y (FY13: $813m) primarily due to weaker realized prices
- Continuous implementation of efficiency improvement projects to further decrease TCC of production supported by RUB devaluation: TCC at Karelsky Okatysh declined to $26/t ($37/t in Q3 14), while TCC at Olkon decreased to $32/t ($37/t in Q3 14).
- TCC at Vorkutaugol improved substantially to $40/t (Q3 14: $87/t) driven by increase in production volumes on the back of completed long walls repositioning program

EBITDA drivers in Q4 2014, $m



Average selling price and cash cost per tonne



* Excluding foreign exchange effect

**Free carrier price terms.

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Financial Position

Cash Flow and Net Working Capital

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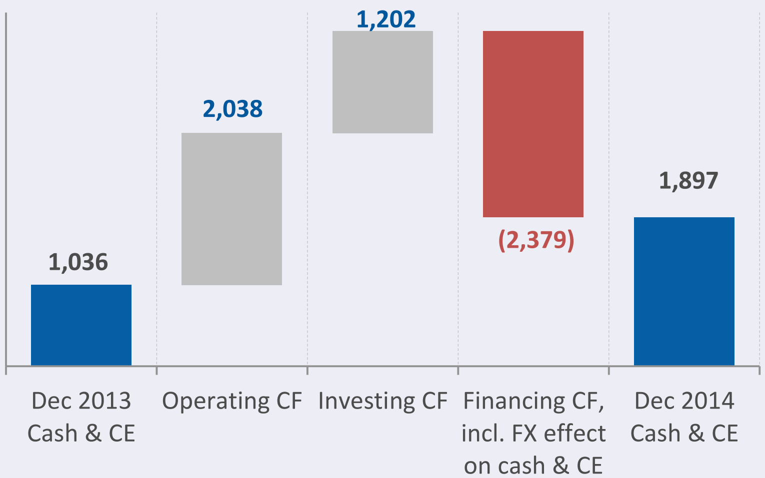
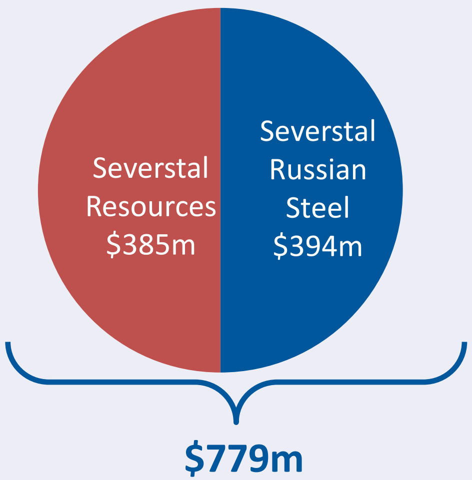
Q4 and FY14 Highlights:

- Solid liquidity position of $1,897m in cash and cash equivalents after SNA disposal and subsequent special dividend payout
- Strong operating cash flow of $546m* in Q4 and $1,930m* in FY14
- Q4 capex of $157m, 13.3% below Q3. FY14 capex of $779m reflects prudent capex approach
- FY15 capex target of RUB30bn, subject to FX fluctuations
- FY14 free cash flow of $1,232m (FY13: $381)
- Net working capital down 45.7% YTD**; NWC/LTM revenue declined to 9.0% YTD**

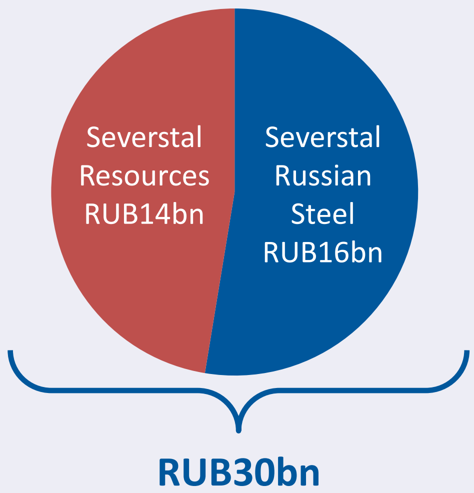
Cash Flow dynamics, 31 Dec 2013 to 31 Dec 2014



FY 2014 CAPEX breakdown, $m



FY 2015 target CAPEX breakdown, RUBbn



Net Working Capital developments

Net working capital, $m

December 31, 2014	December 31, 2013**	Change, %
745	1,371	(45.7%)

Net working capital as % of revenues (LTM)

December 31, 2014	December 31, 2013**	Change, ppts
9.0%	14.5%	(5.5 ppts)

** For representation purposes only Group's Balance Sheet items as of the end of FY13 are represented excluding SNA balances

* Net cash from operating activities – continuing operations

Robust Liquidity and Sustainable Leverage

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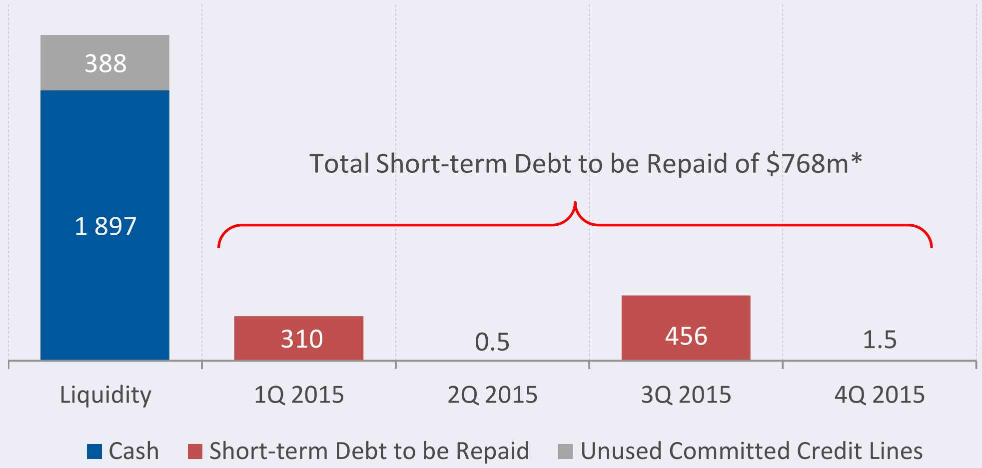
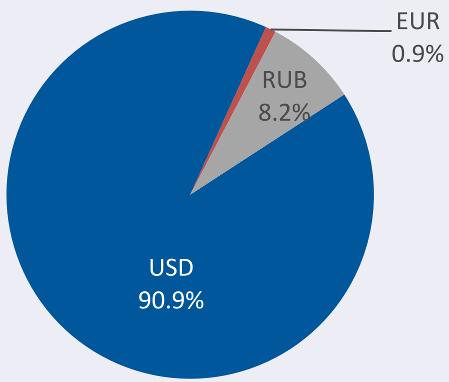
Strong liquidity position:

- Severstal gross debt declined a further 2.8% q/q to $3,429m as at the end of Q4.
- As at the end of Q4, cash and cash equivalents went down to $1,897m after special dividend payout
- Committed unused credit lines temporarily went down to $388m with $300m of short-term debt raised in Q4 via committed facilities to be repaid during Q1 2015
- Solid liquidity position with $1,897m in cash and cash equivalents and committed unused credit lines of $388m, more than covering short-term debt of $768m*
- During FY 2014 our net debt/EBITDA ratio went down to 0.7x from 1.6x** as of YE 2013 driven by both 21.2% y/y higher FY 2014 EBITDA and substantial reduction of net debt.

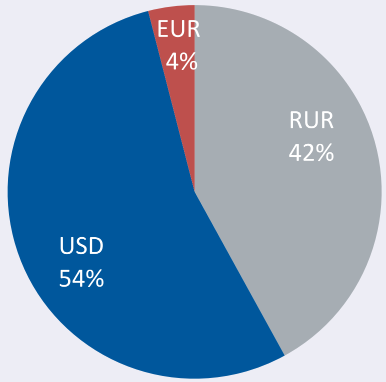


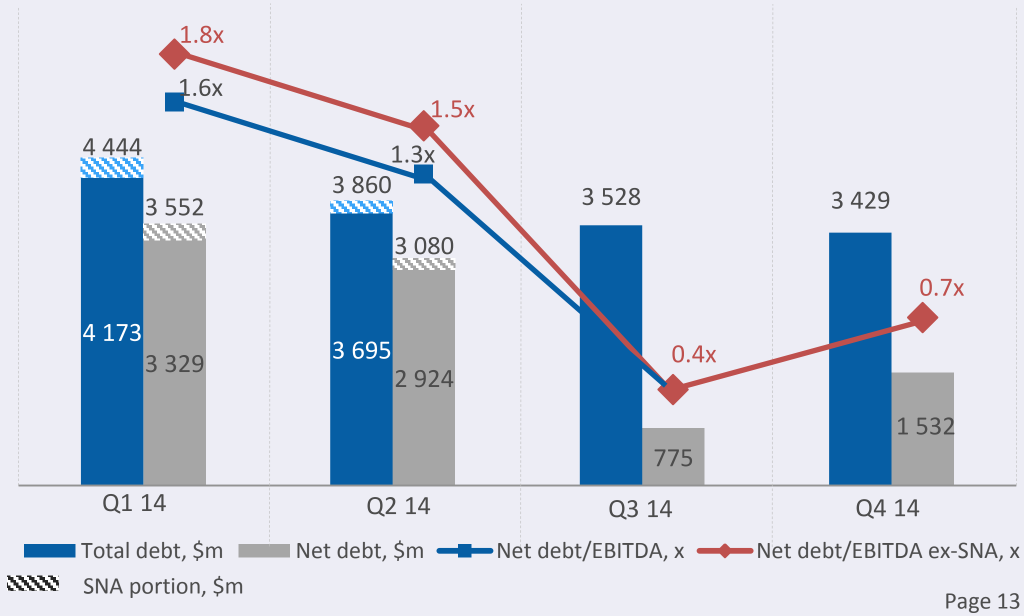
* Represents principal amount of debt including repayments of debt raised via committed facilities as well as repayment of Convertible Bond in line with Put Option in September 2015 assuming Put Option realized

Q4 2014 debt currency mix*



Q4 2014 cash currency mix



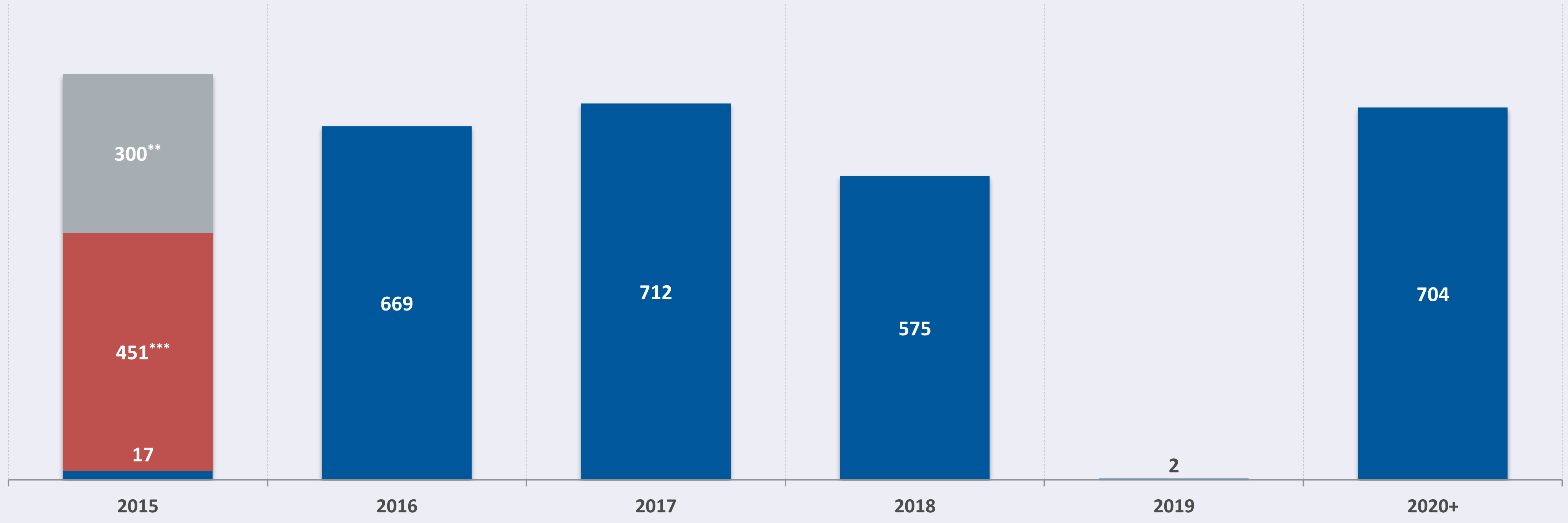


**Excluding Severstal International segment

Debt Structure

As at 31.12.2014 the debt structure was dominated by public debt (82% of total) and the US dollar (90.9% of total).

Debt Maturity Schedule*, $m



Notes:
Debt represents the principal amount of debt. Debt for 2015 represents amount of debt as at 31 December 2014
* Figures exclude accrued interest and unamortized balance of transactional costs.
** Repayment of funds raised via committed facilities to be repaid during Q1 2015
*** Repayment of Convertible Bond in line with Put Option in September 2015 assuming Put Option realized

2015 Market Outlook

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Global:

- Global steel production increased by 1.2% in 2014. Average global steelmaking capacity utilization remains low at 76.3%
- High competition on the steel market between major exporters continues to weigh pressure on global steel prices
- Iron ore and coking coal markets remain oversupplied with weak Chinese GDP data suggesting demand will stay subdued. Steel prices are on a downward trend supported by the stronger dollar
- Nevertheless, further downside in steel prices is limited as the spread between steel and raw material prices has compressed substantially after a sharp increase in 2014

Russia:

- Domestic steel consumption is expected to weaken in 2015
- Nevertheless, this can partly be offset by higher exports

Source: Worldsteel, Rosstat, Severstal estimates

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Appendices

Summary Income Statement

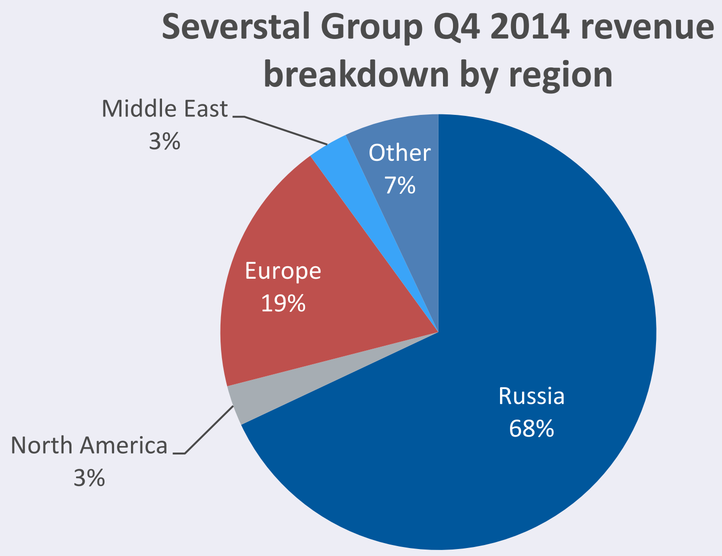
Severstal

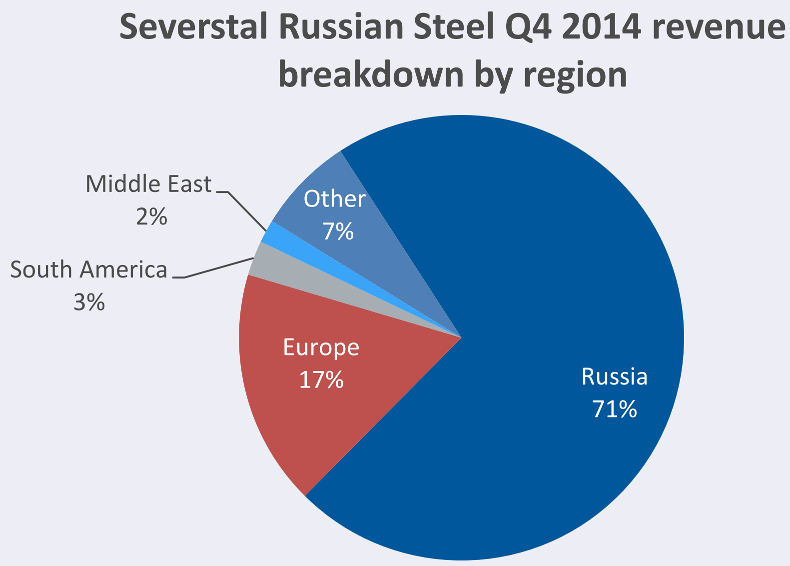
$ million, unless otherwise stated	Q4 2014	Q3 2014	2014	2013*
Revenue	1,878	2,240	8,296	9,434
COGS	(1,137)	(1,447)	(5,448)	(6,614)
EBITDA	602	636	2,203	1,818
EBITDA margin, %	32.1%	28.4%	26.6%	19.3%
Profit from operations	453	479	1,594	1,209
Operating margin, %	24.1%	21.4%	19.2%	12.8%
(Loss)/ profit before income tax	(953)	(53)	(814)	328
Net (loss)/profit	(795)	(45)	(1,602)	83
Basic EPS, $	(0.98)	(0.06)	(1.98)	0.10

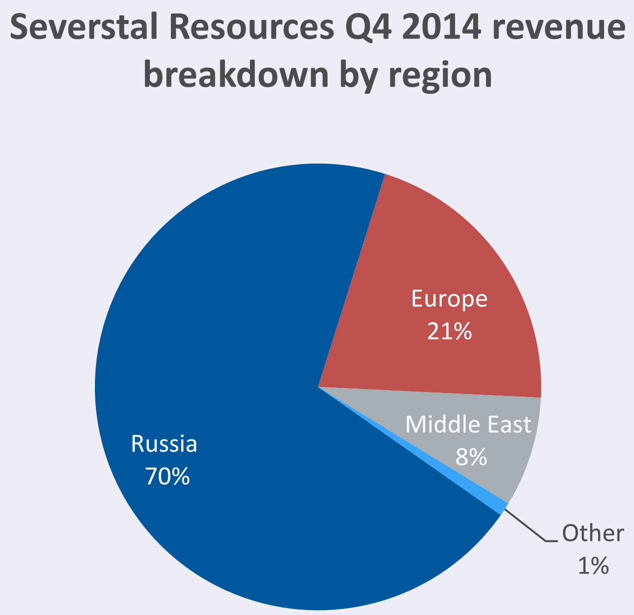
* These amounts reflect adjustments made in connection with the presentation of the discontinued operation

Q4 2014 Revenue Breakdown by Region

Severstal







Q4 2014 Division Results

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Severstal Resources

	Q4 2014	Q3 2014	Change, %	2014	2013	Change, %
Revenue ($m)	358	440	(18.6%)	1,851	2,665	(30.5%)
Cost of sales ($m)	(210)	(301)	(30.2%)	(1,201)	(1,652)	(27.3%)
G&A expences ($m)	(9)	(22)	(59.1%)	(89)	(97)	(8.2%)
Distribution expences ($m)	(36)	(47)	(23.4%)	(177)	(293)	(39.6%)
EBITDA ($m)	135	116	16.4%	556	813	(31.6%)
Operating Profit ($m)	89	59	50.8%	334	554	(39.7%)
EBITDA Margin, %	37.7%	26.4%	11.3 ppts	30.0%	30.5%	(0.5 ppts)

Severstal Russian Steel

	Q4 2014	Q3 2014	Change, %	2014	2013	Change, %
Revenue ($m)	1,703	2,085	(18.3%)	7,492	8,033	(6.7%)
Cost of sales ($m)	(1,108)	(1,437)	(22.9%)	(5,304)	(6,223)	(14.8%)
G&A expences ($m)	(80)	(83)	(3.6%)	(345)	(466)	(26.0%)
Distribution expences ($m)	(124)	(149)	(16.8%)	(541)	(642)	(15.7%)
EBITDA ($m)	465	514	(9.5%)	1,634	1,008	62.1%
Operating Profit ($m)	363	414	(12.3%)	1,247	654	90.7%
EBITDA Margin, %	27.3%	24.7%	2.6 ppts	21.8%	12.5%	9.3 ppts
EBITDA per tonne ($/t)	175	187	(6.4%)	154	95	62.1%
Average Selling Price (US$/t*)	579	681	(15.0%)	631	675	(6.5%)

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

Summary Balance Sheet

Severstal

$ million	As at 31 December 2014	As at 31 December 2013
Cash and Cash Equivalents	1,897	1,036
Total Assets:	7,561	14,534
Current Assets	3,620	4,906
Non-current Assets	3,941	9,628
Total Liabilities:	4,723	7,534
Current Liabilities	1,734	2,549
Non-current Liabilities	2,989	4,985
Total Equity	2,838	7,000
Total Equity and Liabilities	7,561	14,534

Summary Cash Flow Statement

Severstal

$ million	Q4 2014	Q3 2014	2014	2013*
Profit before Financing and Taxation	290	437	1,201	897
Cash Generated from Operations	612	463	2,231	1,748
Interest Paid	(57)	(46)	(247)	(307)
Income Tax Paid	(9)	(38)	(54)	(64)
Net cash from Operating Activities - continuing operations	546	379	1,930	1,377
Net cash (used in)/from Operating Activities - discontinued operations	(15)	(44)	108	201
Net cash from Operating Activities	531	335	2,038	1,578
Net cash (used in)/from Investing Activities - continuing operations	(101)	1 817	1,296	(1,021)
Net cash used in Investing Activities - discontinued operations	-	(64)	(94)	(99)
Total cash (used in)/from Investing Activites, incl.	(101)	1,753	1,202	(1,120)
Additions to PP&E and IA	(157)	(181)	(779)	(1,084)
Free Cash Flow**	425	218	1,232	381
Cash used in Financing Activities - continuing operations	(1,035)	(259)	(1,684)	(778)
Cash from/(used in) Financing Activities - discontinued operations	1	213	(367)	(363)
Cash used in Financing Activities	(1,034)	(46)	(2,051)	(1,141)
Effect of Exchange Rate on Cash and Cash Equivalents	(252)	(69)	(328)	(7)
Net increase/(decrease) in Cash and Cash Equivalents	(856)	1,973	861	(690)
Cash and Cash Equivalents at beginning of the Period	2,753	780	1,036	1,726
Cash and Cash Equivalents at end of the Period	1,897	2,753	1,897	1,036

* These amounts reflect adjustments made in connection with the presentation of the discontinued operation

** Free cash flow excludes discontinued operation

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