



Q2 and H1 2013 Financial Results Presentation

29 August 2013



Table of Contents

3 Q2 2013 Results Overview

7 Divisional Performance and Market Outlook

12 Financial Position

18 Appendices




Severstal

**Q2 2013
Results Overview**

Q2 and H1 2013 Highlights

- Second consecutive q/q earnings improvement due to higher sales volumes and cost control initiatives
- Q2 revenue up 2.8% q/q to \$3,414m on higher sales volumes across divisions. H1 revenue down 8.9% y/y to \$6,736m as a result of lower realized prices for steel & bulks
- Q2 EBITDA* up 11.4% q/q to \$479m (Q1 2013: \$430m) thanks to higher selling volumes across divisions and strict cost control, which offset weaker realized prices. Q2 EBITDA at Severstal International was down q/q as a result of a \$12m positive non-cash one-off item in Q1 2013; on an adjusted basis the division's Q2 EBITDA is 15.8% higher than in Q1. The Group's EBITDA margin improved in Q2 by 1.1 ppts to 14.0% from 12.9% in Q1
- Q2 2013 operating profit of \$278m (Q1 2013: \$222m)
- Q2 2013 net loss** of \$44m mainly due to \$226m FX losses in Q2 (Q1 2013: net profit of \$44m). Excluding the FX losses the company's profit for the period would be \$182 million
- Net debt decreased by 5.4% to \$3,960m from \$4,186m as of end of Q1 2013. Net Debt/EBITDA at the end of Q2 was 2.2x. Solid liquidity position of \$1,494m in cash and cash equivalents and committed unused credit lines of \$1,264m
- Q2 2013 capex of \$253m***, 18.1% lower than in Q1 2013
- Recommended dividend payment of 2.03 roubles per share (approximately \$0.06) for the 6 months ended 30 June 2013.

* 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)

** Net (loss)/ profit attributable to shareholders of OAO Severstal. Net (loss)/profit is after FX translation losses

*** Represents cash outflow on capex in the period

Revenue Dynamics and Breakdown

Q2 2013 Revenue: \$3,414m
(Q1 2013: \$3,322m; +2.8%)

Moderate improvement across the divisions q/q, primarily driven by higher sales volumes



H1 2013 Revenue: \$6,736m
(H1 2012: \$7,397m; -8.9%)

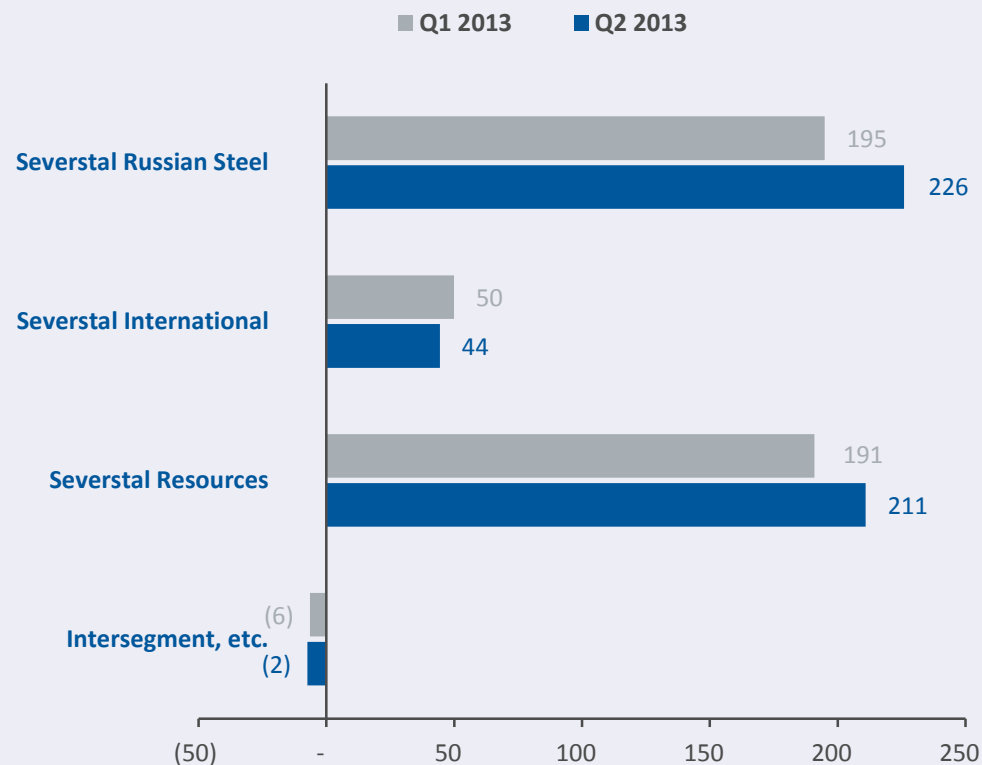
Lower revenues at the divisions due to weaker pricing environment y/y



EBITDA Dynamics and Breakdown

Q2 2013 EBITDA: \$479m
(Q1 2013: \$430m; +11.4%)

EBITDA increase at Severstal Russian Steel and Severstal Resources resulted in 11% EBITDA growth for the Group. EBITDA at Severstal International was also up q/q after adjusting for \$12m positive non-cash one-off item in Q1 2013



H1 2013 EBITDA: \$909m
(H1 2012: \$1,249m; -27.2%)

Lower steel and bulks prices were the major driver behind EBITDA decrease in 1H 2013



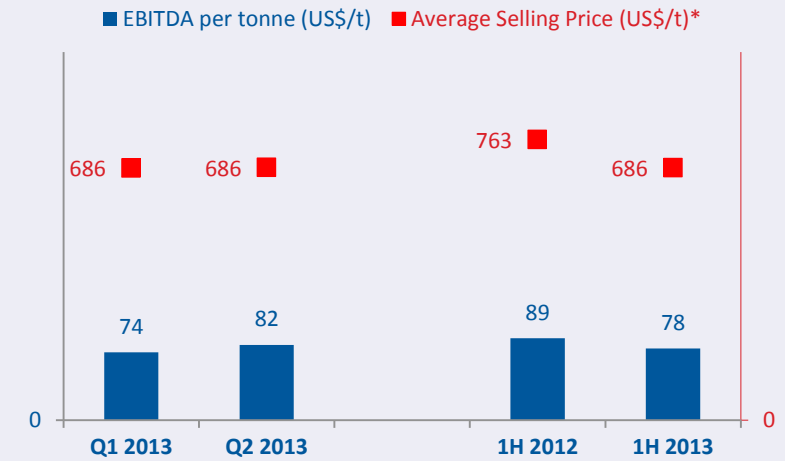


Divisional Performance and Market Outlook



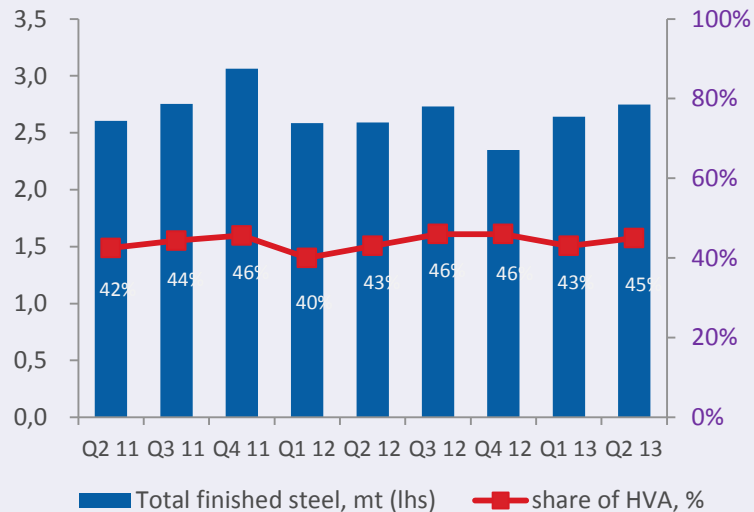
- Q2 revenue up 3.1% q/q to \$2,093m (Q1 2013: \$2,030m) due to seasonally stronger sales volumes of HVA products. H1 2013 revenue of \$4,123 million was down 7.0% y/y (H1 2012: \$4,435 million)
- Q2 EBITDA up 15.9% q/q to \$226m (Q1 2013: \$195m) with EBITDA margin 1.2 ppts higher q/q to 10.8% due to seasonally higher sales of HVA products. On a y/y basis H1 2013 EBITDA of \$421 million decreased by 9.7% (H1 2012: \$466 million)
- Share of high-value-added (HVA) products seasonally up q/q to 45%. On a year-on-year basis it was also better with the share being 43% in Q2 2012
- Share of sales volumes to the domestic market seasonally up in Q2 to 65% in from 56% in Q1. It was also higher than in Q2 2012, when it reached 58%

EBITDA per tonne and average selling price



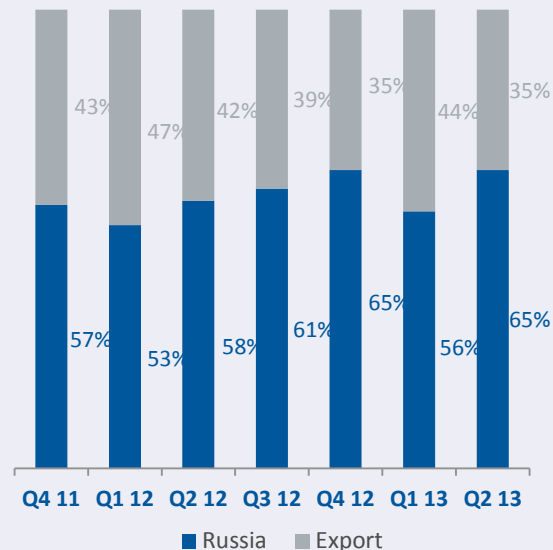
*All steel products, incl. pipes, etc.; Ex Works price terms.

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

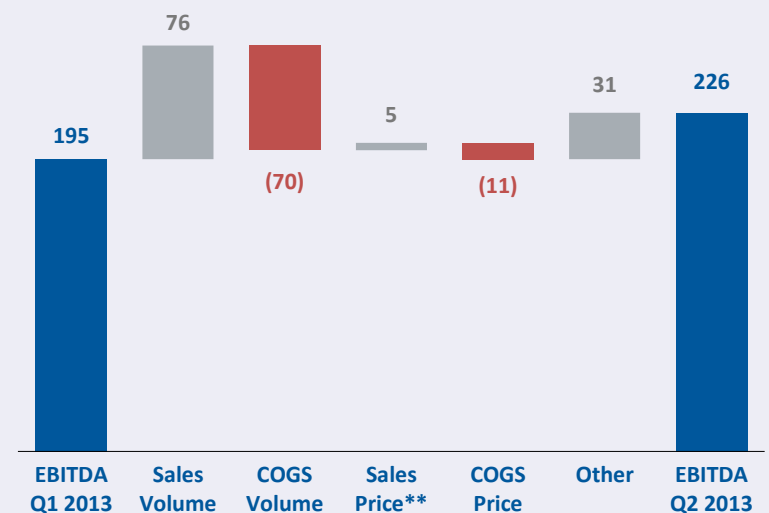


*** High-value-added comprises: plate; cold-rolled, galvanized and metallic coated, color coated sheet; metalware; large-diameter and other pipes.

Steel sales volumes by destination, %



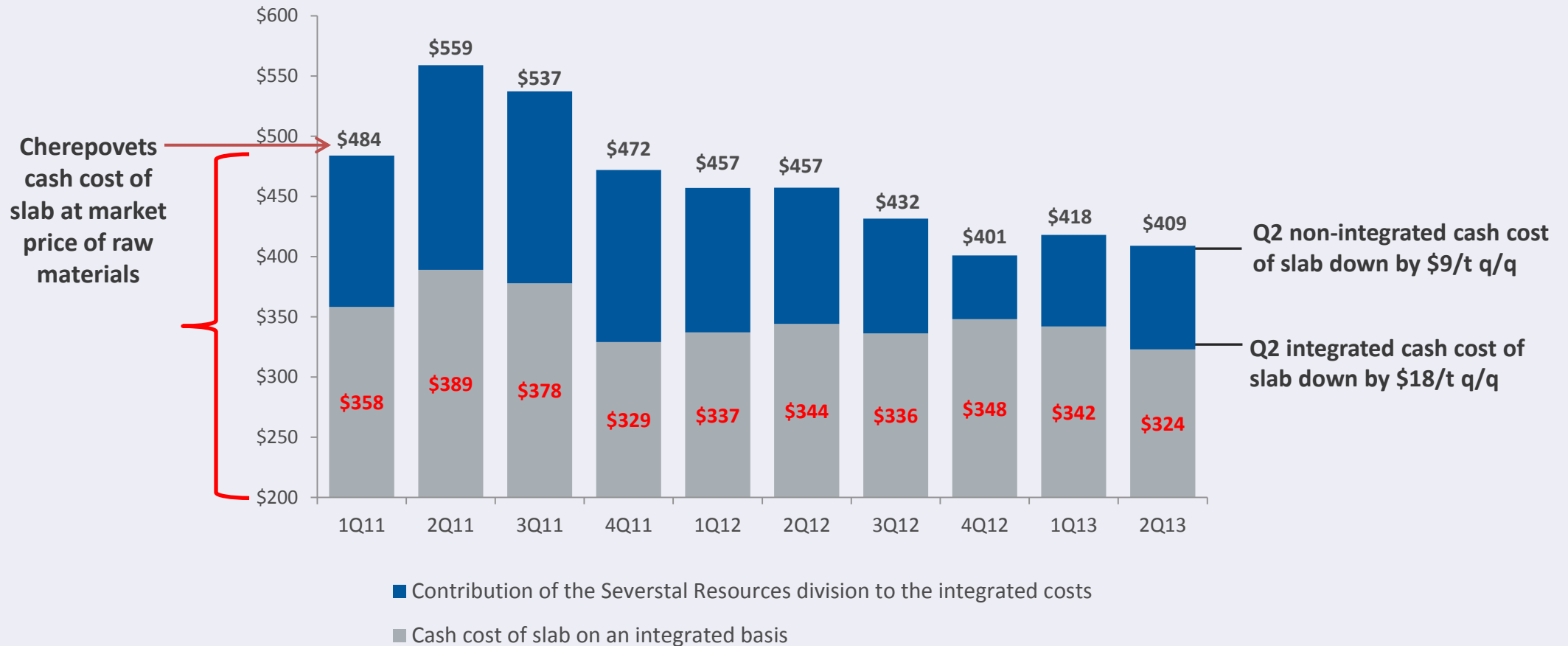
EBITDA drivers in Q2 2013, \$m



** Excluding foreign exchange effect.

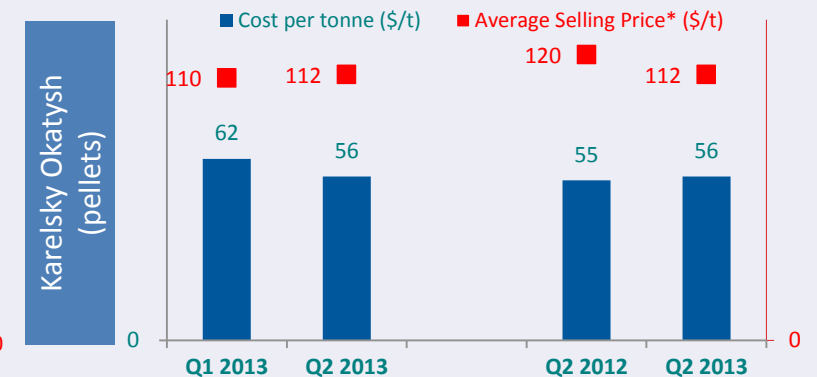
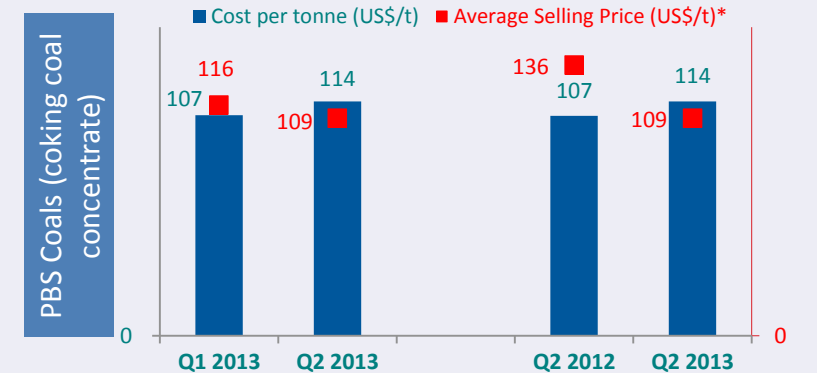
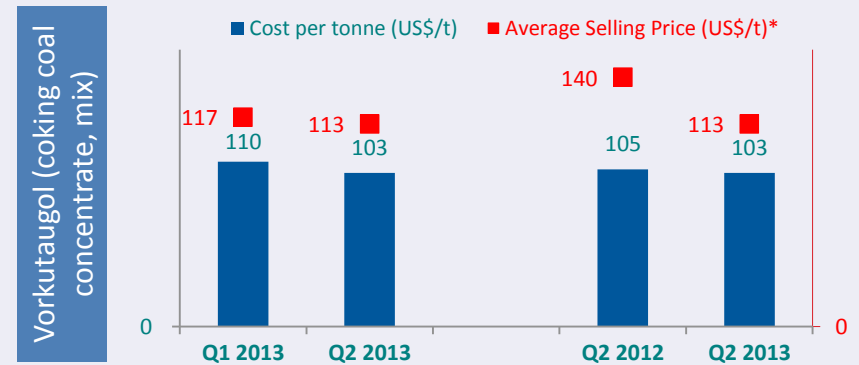
Cost Control at Severstal Russian Steel

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

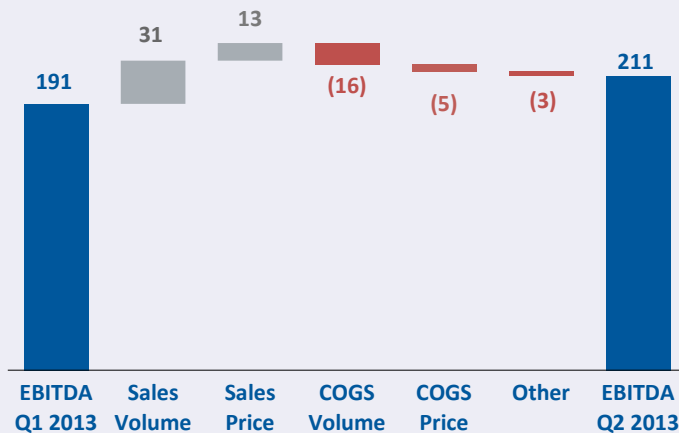


- Q2 revenue up 3.2% q/q to \$706m (Q1 2013: \$684m) due to recovery of iron ore sales volumes. On a y/y basis H1 2013 revenue of \$1,390 million was down 13.0% (H1 2012: \$1,597 million)
- Q2 EBITDA of \$211m up 10.5% q/q (Q1 2013: \$191m) on higher revenues and lower unit costs at all the Russian operations. Y/y H1 2013 EBITDA of \$402 million was 34.2% lower (H1 2012: \$611 million)
- Cash costs at the iron ore operations continued to decrease in Q2 2013 with total cash costs (TCC) at Karelskiy Okatysh down to \$56/t (Q1 2013: \$62/t) and to \$43/t (Q1 2013: \$53/t) at Olkon
- Total cash costs for the Vorkuta coking coal concentrate were also down q/q to \$103/t (Q1 2013: \$110/t), while at PBS cash costs increased to \$114/t (Q1 2013: \$107/t) on lower sales volumes as a result of weaker demand

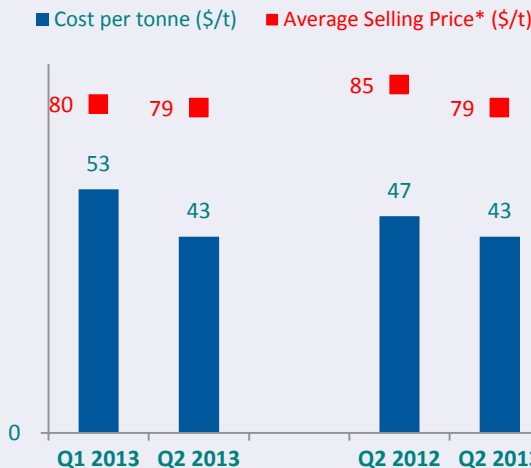
Average selling price and cash cost per tonne



EBITDA drivers in Q2 2013, \$m



Olkon (iron ore concentrate)

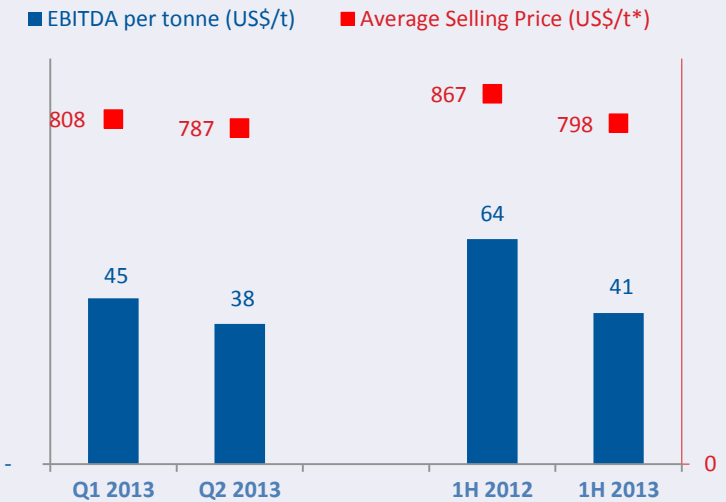


** Cash costs per tonne represent difference between Price/t and EBITDA/t

*Free carrier price terms.

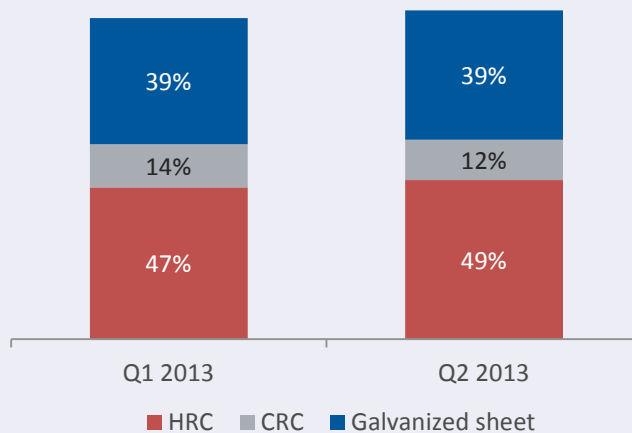
- Q2 revenue of \$953 million (Q1 2013: \$930 million), increased by 2.5% q/q. Y/y H1 2013 revenue of \$1,883 million was down 12.7% (H1 2012: \$2,158 million)
- Q2 EBITDA down 12.0% q/q to \$44 million because of \$12 million positive non-cash one-off item in Q1 2013. Adjusting for this the division's EBITDA was 15.8% higher than in Q1. H1 2013 EBITDA of \$94 million, down 39.4% y/y (H1 2012: \$155 million)
- Q2 EBITDA margin down to 4.6% (Q1 2013: 5.4%). Q2 EBITDA per tonne decreased q/q to \$38 from \$45 in Q1 2013
- Steel demand in the US remained strong in Q2 with the major contributors to demand growth being auto and construction industries. June automotive sales hit a record high in recent years at 16 million units (on an annualized basis). Total construction spending in H1 2013 was up 5% y/y, driven by a 20% increase in residential spending

EBITDA per tonne and average selling price

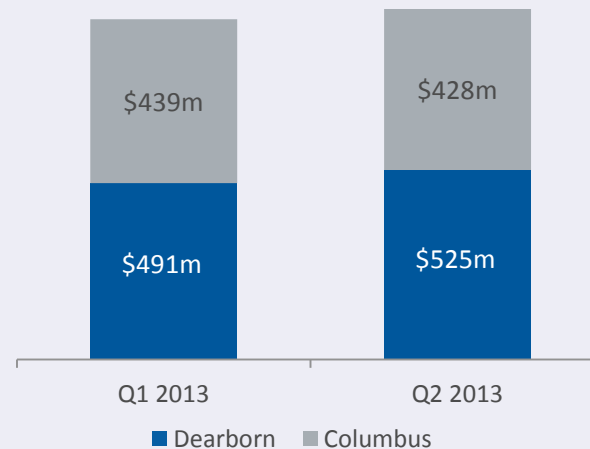


*All steel products, mixed price terms, resulting ex works.

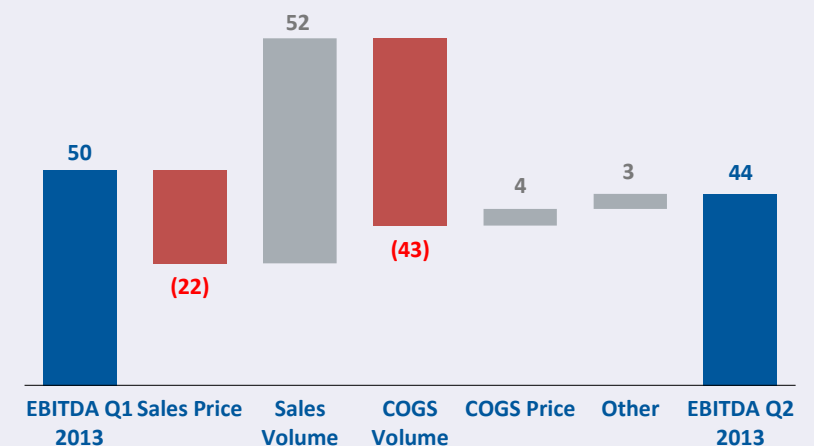
H1 2013 steel revenue by product dynamics



H1 2013 revenue by plant dynamics



EBITDA drivers in Q2 2013, \$m





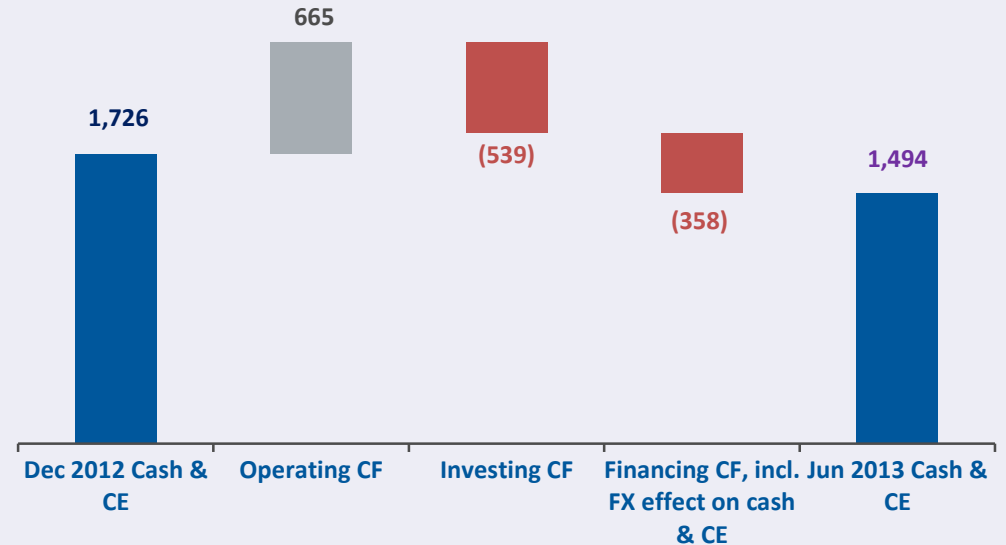
Severstal 

Financial Position

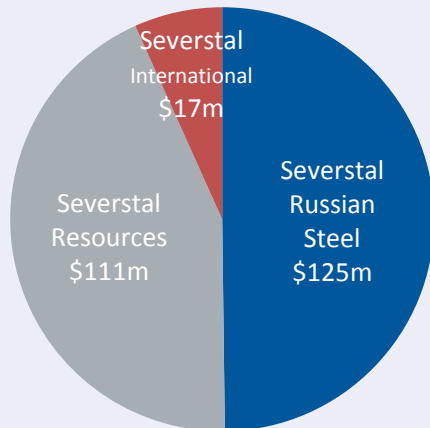
Cash Flow and Net Working Capital

Highlights:

- Strong liquidity position of \$1,494m in cash and cash equivalents
- Solid operating cash flow of \$665m in H1 2013
- CAPEX of \$562m
- Free cash flow of \$133m
- Net working capital down 6.1% from the beginning of the year and NWC/LTM revenue down 0.2 ppts



Q2 2013 CAPEX breakdown, \$m



H1 2013 CAPEX breakdown, \$m



Net Working Capital developments

Net working capital, \$m

June 30, 2013	December 31, 2012	Change, %
1,922	2,046	(6.1%)

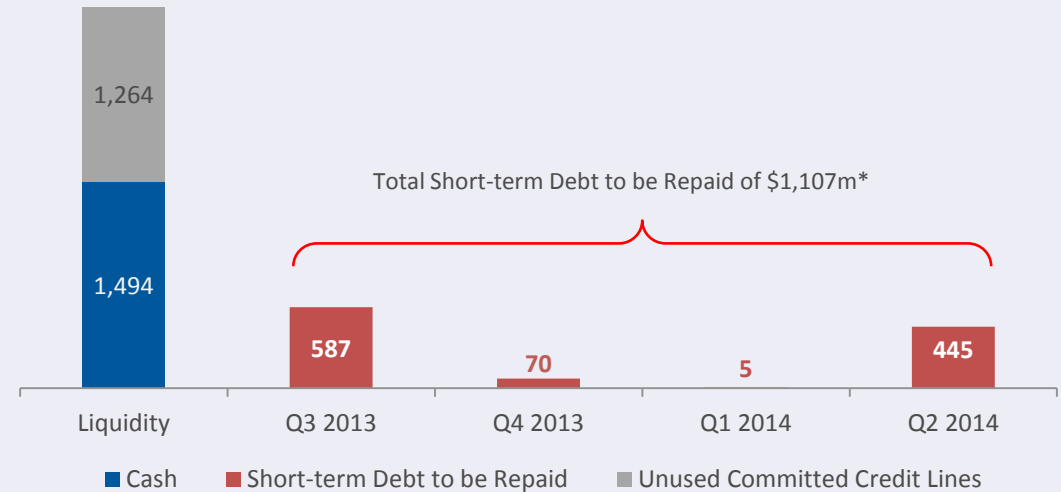
Net working capital as % of revenues

June 30, 2013	December 31, 2012	Change, ppts
14.3%	14.5%	(0.2 ppts)



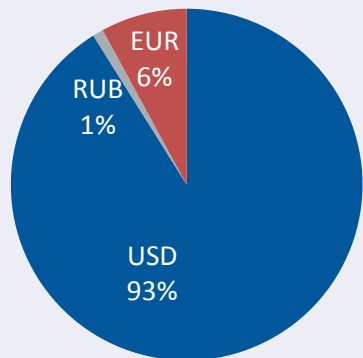
Robust Liquidity and Sustainable Leverage Severstal

- Solid liquidity position:
 - Cash and cash equivalent of \$1,494m
 - Committed unused credit lines of \$1,264m
- Upcoming short-term debt maturities serviced with available liquidity of \$2,758m:
 - Q3 2013 repayments of \$587m
 - Short-term debt amounts to \$1,107m
- Net Debt/EBITDA broadly stable at 2.2x, while net debt decreased ytd by 5% to \$3,960m

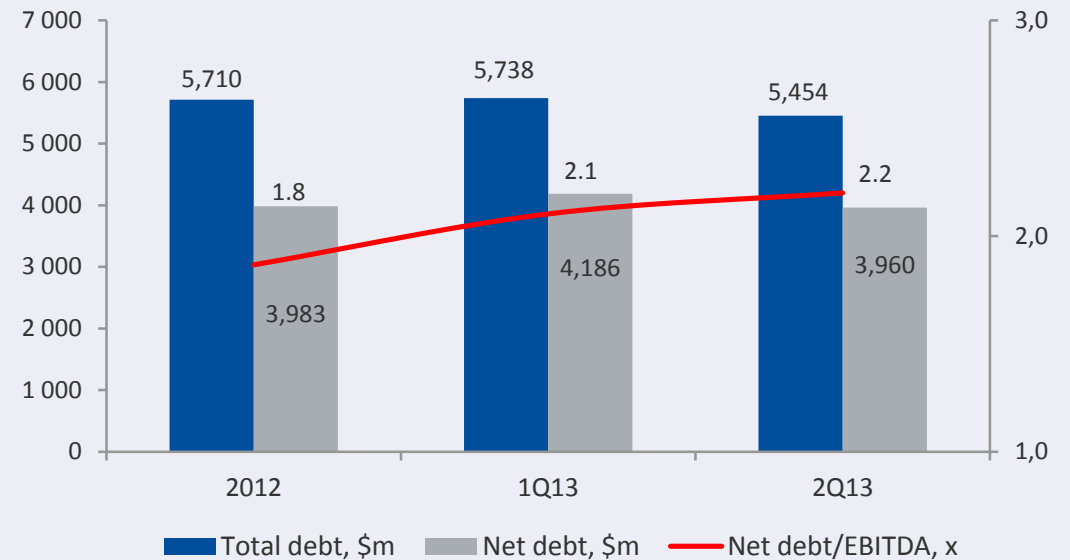
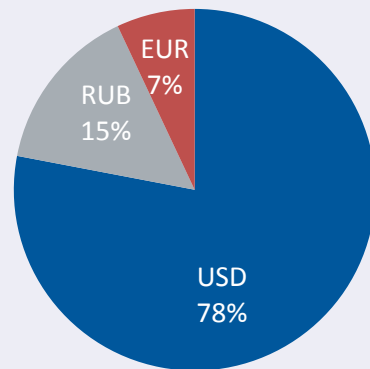


* Represents principal amount of debt.

Q2 2013 debt currency mix



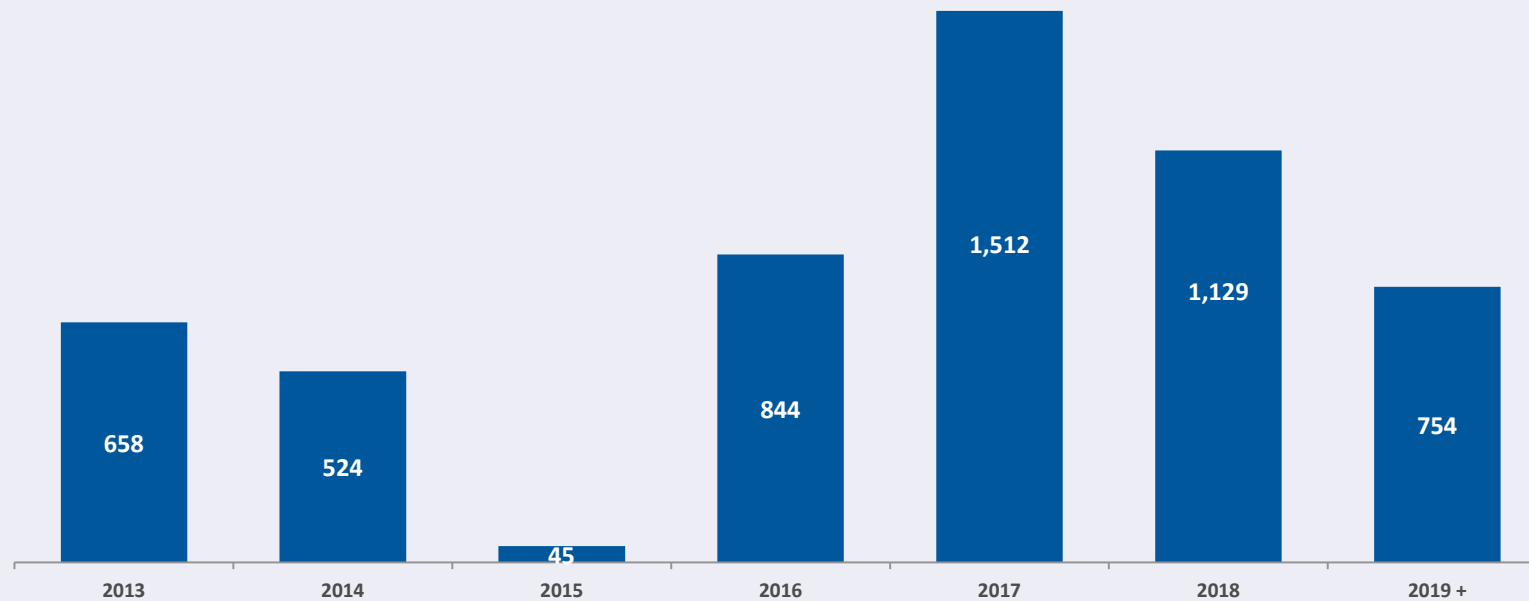
Q2 2013 cash currency mix



Debt Structure

As at 30.06.2013 the debt structure remains broadly unchanged and is dominated by public debt (87% of total) and US dollar (93% of total)

Debt Maturity Schedule, \$m



This chart represents principal amount of debt.

Global:

- Global steel demand is expected to be flat supported by growing consumer confidence in the USA, the end of liquidity issues in China and certain positive signs in Europe (PMI increased above 50)
- Chinese steel production in H1'13 was 9% up y/y driven by higher steel demand, but also indicates some overproduction issues
- Hot rolled coil prices are increasing globally due to temporary supply disruptions and cyclical factors, such as low level of inventories

Russia:

- Ytd steel demand in Russia is c. 4% higher y/y driven by construction and the pipes and tubes sector (OCTG)
- Spread between Russian domestic and export prices continues to be squeezed reflecting increasing competition in the internal market
- A number of new EAF projects are coming on stream with a total crude steel capacity of 3 mtpa

USA:

- The economy continues to grow at a slow and steady pace driven by automotive sales and demand for single family homes
- July automotive sales were up 14% over July 2012 levels, driven by strong light truck sales



Severstal 

Q&A





Appendices

Summary Income Statement

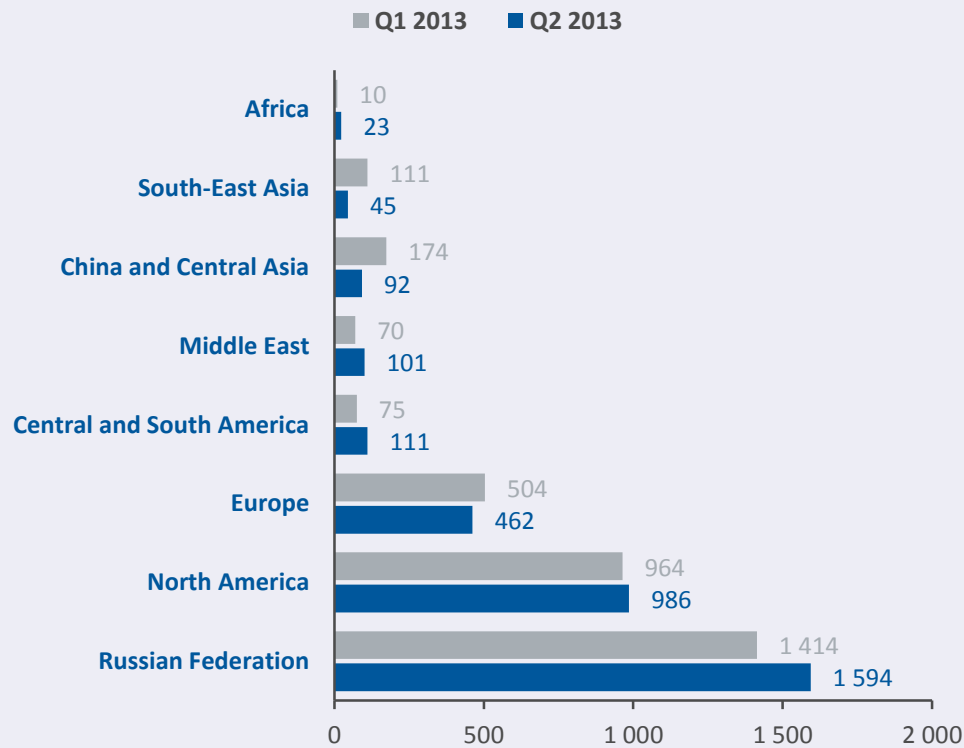
\$ million, unless otherwise stated	Q2 2013	Q1 2013	H1 2013
Revenue	3,414	3,322	6,736
COGS	(2,678)	(2,625)	(5,303)
EBITDA	479	430	909
EBITDA margin, %	14.0%	12.9%	13.5%
Profit from operations	278	222	500
Operating margin, %	8.1%	6.7%	7.4%
(Loss)/ profit before income tax	(72)	94	22
Net (loss)/ profit	(44)	44	-
Basic EPS, \$	(0.06)	0.05	-
Dividend per share, \$*	0.06	0.01	0.07

* 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 1H 2013 need to be approved by EGM on September 30, 2013



Q2 2013 Revenue Breakdown by Region

Q2 2013/Q1 2013, \$m



H1 2013/H1 2012, \$m



Q2 2013 Highlights:

- Higher sales to Russia on seasonally strong domestic demand
- Strong demand in the US supports sales in North America
- Sales to remote Asian regions down due to overall weaker pricing environment and high competition in the region

Q2 2013 Division Results



Severstal Russian Steel	Q2 2013	Q1 2013	Change, %	H1 2013	H1 2012**	Change, %
Revenue (\$m)	2,093	2,030	3.1%	4,123	4,435	(7.0%)
Cost of sales (\$m)	(1,652)	(1,602)	3.1%	(3,254)	(3,472)	(6.3%)
G&A and distribution (\$m)	(294)	(306)	(3.9%)	(600)	(641)	(6.4%)
G&A and distribution as % of revenue	14.0%	15.1%	(1.1 ppts)	14.6%	14.5%	0.1 ppts
EBITDA (\$m)	226	195	15.9%	421	466	(9.7%)
Operating Profit (\$m)	133	99	34.3%	232	295	(21.4%)
EBITDA Margin, %	10.8%	9.6%	1.2 ppts	10.2%	10.5%	(0.3 ppts)
EBITDA per tonne (\$/t)	82	74	10.8%	78	89	(12.4%)
Average Selling Price (US\$/t*)	686	686	-	686	763	(10.1%)

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

Severstal International	Q2 2013	Q1 2013	Change, %	H1 2013	H1 2012**	Change, %
Revenue (\$m)	953	930	2.5%	1,883	2,158	(12.7%)
Cost of sales (\$m)	(930)	(906)	2.6%	(1,836)	(2,053)	(10.6%)
G&A and distribution (\$m)	(18)	(26)	(30.8%)	(44)	(51)	(13.7%)
G&A and distribution as % of revenue	1.9%	2.8%	(0.9 ppts)	2.3%	2.4%	(0.1 ppts)
EBITDA (\$m)	44	50	(12.0%)	94	155	(39.4%)
Operating (Loss)/ Profit (\$m)	(4)	3	N.A.	(1)	57	N.A.
EBITDA Margin, %	4.6%	5.4%	(0.8 ppts)	5.0%	7.2%	(2.2 ppts)
EBITDA per tonne (\$/t)	38	45	(15.6%)	41	64	(35.9%)
Average Selling Price (US\$/t*)	787	808	(2.6%)	798	867	(8.0%)

*All steel products; mixed price terms, mostly Ex Works. ** Here and thereafter. 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 Page 21

Q2 2013 Division Results (Continued)



Severstal Resources

	Q2 2013	Q1 2013	Change, %	H1 2013	H1 2012	Change, %
Revenue (\$m)	706	684	3.2%	1,390	1,597	(13.0%)
Cost of sales (\$m)	(434)	(432)	0.5%	(866)	(837)	3.5%
G&A and distribution (\$m)	(109)	(107)	1.9%	(216)	(230)	(6.1%)
G&A and distribution as % of revenue	15.4%	15.6%	(0.2 pts)	15.5%	14.4%	1.1 pts
EBITDA (\$m)	211	191	10.5%	402	611	(34.2%)
Operating Profit (\$m)	150	125	20.0%	275	502	(45.2%)
EBITDA Margin, %	29.9%	27.9%	2.0 pts	28.9%	38.3%	(9.4 pts)

Summary Balance Sheet

\$ million	As at 30 June 2013	As at 31 December 2012
Cash and Cash Equivalents	1,494	1,726
Total Assets:	14,895	15,707
Current Assets	5,193	5,697
Non-current Assets	9,702	10,010
Total Liabilities:	7,996	8,492
Current Liabilities	2,940	3,370
Non-current Liabilities	5,056	5,122
Total Equity	6,899	7,215
Total Equity and Liabilities	14,895	15,707

Summary Cash Flow Statement

\$ million	Q2 2013	Q1 2013	H1 2013
Profit before Financing and Taxation	251	202	453
Cash Generated from Operations	642	235	877
Interest Paid	(90)	(113)	(203)
Income Tax Received/ (Paid)	4	(13)	(9)
Net cash from Operating Activities	556	109	665
Total cash used in Investing Activities , incl.	(246)	(293)	(539)
Additions to PP&E and IA	(253)	(309)	(562)
Free Cash Flow	319	(186)	133
Cash (used in)/ from Financing Activities	(362)	23	(339)
Effect of Exchange Rate on Cash and Cash Equivalents	(6)	(13)	(19)
Net decrease in Cash and Cash Equivalents	(58)	(174)	(232)
Cash and Cash Equivalents at beginning of the Period	1,552	1,726	1,726
Cash and Cash Equivalents at end of the Period	1,494	1,552	1,494

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