

19 November 2009

Decisive management action in improved markets

Financial Results for the three months and nine months ended 30 September 2009 (\$ million unless otherwise stated)

	Q3 2009	Q2 2009	9m 2009	9m 2008 ⁴
Revenue	3,487	2,852	9,135	18,373
Profit/(loss) from operations	120	(228)	(503)	4,255
EBITDA ¹	368	(5)	207	5,067
Net profit/(loss) ²	66	(290)	(878)	3,243
EPS, \$	0.07	(0.29)	(0.87)	3.22
DPS ³ , \$	0.00	0.00	0.00	1.23

Notes: 1 EBITDA represents profit from operations plus depreciation and amortisation adjusted for gain/(loss) on disposals of property plant and equipment.

2 Net profit/(loss) attributable to shareholders.

3 Dividends announced on the basis of respective period results, translated at the exchange rate as of the date of recommendation by the Board of Directors.

4 These amounts reflect adjustments made in connection with the completion of purchase price allocations and acquisitions from the majority shareholder.

OA Severstal (LSE: SVST; RTS: CHMF), one of the world's leading steel and mining companies, with key assets in Russia, the US and Europe, today reports results for the three months and nine months ended 30 September 2009.

Q3 Highlights:

- Further improvements in global demand, higher prices and prompt management action on cost reduction initiatives resulted in stronger financial performance with positive EBITDA and net profit, and strong cash flow
- Revenue up 22.3% to \$3,487 million (Q2 09: \$2,852 million)
- EBITDA of \$368 million (Q2 09: negative \$5 million), driven by strong performances in Severstal Russian Steel and Severstal Resources
- Net profit of \$66 million, including a \$55 million pre-tax foreign exchange gain (Q2 09: net loss of \$290 million, including a \$167 million pre-tax foreign exchange gain)
- Strong free cash flow of \$279 million (Q2 09: \$18 million), as a result of prudent and effective working capital management
- Another strong performance from Russian operations and improvement in US operations

9m Highlights:

- Revenue of \$9,135 million (9m 08: \$18,373 million), as a result of lower sales volumes and a drop in average prices, particularly in early 2009
- EBITDA of \$207 million (9m 08: EBITDA of \$5,067 million)

- Net loss of \$878 million, including a \$160 million pre-tax foreign exchange loss (9m 08: net profit of \$3,243 million, including a \$45 million pre-tax foreign exchange loss)

Funding position remains robust:

- Cash, short-term deposits and committed unused credit lines of \$3,602 million as at 30 September 2009, exceed current short-term debt obligations of \$1,495 million
- Cash, cash equivalents and short-term bank deposits of \$3,161 million as at 30 September 2009
- 9m operating cash flow of \$843 million includes \$1,478 million of working capital release; including \$442 million of working capital release in Q3

Operational restructuring continues

- Cost savings initiatives and higher utilisation rates resulted in lower cost per unit of sales in all divisions and improvement in EBITDA margin to 10.6% for Q3 (Q2 09: negative 0.2%)
- Capital expenditure for 9m 09 in line with \$1.0 billion full year guidance
 - Q3 capital expenditure of \$247 million; 9m capital expenditure of \$724 million
- Focused management actions to enhance North American performance
 - Cost saving measures taken to date in North America have delivered significant early improvements in performance
 - Management currently discussing in depth 2010 operational plan with unions in US; North American business continues to be managed to ensure that it is profitable and cash positive going forward
- Release of \$440 million working capital from inventories stocks in Q3, with substantial contribution from North American operations (Q2 09: \$633 million)

Alexey Mordashov, Chief Executive of Severstal, said, "The market environment improved in the third quarter of 2009. The combination of increased demand and the continued successful implementation of our cost savings programmes delivered a return to positive EBITDA and net profit in Q3. We also continued to deliver strong cash flow.

Severstal Russian Steel performed particularly well during the quarter, with an 80% increase in EBITDA. This division is a world class, low cost producer of steel which has continued to deliver strong results throughout this difficult year.

Greater stability in our primary markets has made us more optimistic on the prospects for the remainder of 2009 and 2010. Whilst a Q4 seasonal correction cannot be ruled out, we believe further measured recovery in 2010 is now more likely. Continued recovery will depend on the pace of global economic growth and discipline in production and pricing across the industry."

Chief Executive's Review of the three and nine months ended 30 September 2009

Group revenue was \$9,135 million for the 9 months (9m 08: \$18,373 million). 9m EBITDA was \$207 million (9m 08: \$5,067 million), producing an EBITDA margin of 2.3% (9m 08: 27.6%).

The Group's quarter on quarter performance improved in Q3 as steel markets improved in our key geographies. Steel production increased by 19.5% in line with demand improvements and this enabled higher capacity utilisation against a background of improved pricing. The production of coking coal concentrate and iron ore products increased by 15.4% and 11.8% respectively during the quarter, as a result of higher demand.

A significant improvement in EBITDA to \$368 million in Q3 (Q2 09: negative \$5 million) was achieved primarily due to strong performances at Severstal Russian Steel. Higher sales volumes and prices drove this result. In the International division, our North American and European operations also delivered improved EBITDA, reducing the losses in these businesses. The European business continued to operate in a difficult trading environment and prices fell quarter on quarter in Q3.

Increased capacity utilisation in Russia and North America positively affected the cost of production. Additional benefit was derived from the cost reduction and rationalisation programmes that have been implemented in all divisions. In Q3, general and administrative expenses were down 19.2% quarter on quarter, resulting in a 26.3% year on year reduction for 9m 2009.

Although Rouble appreciation in Q3 affected export margins in Severstal Russian Steel, we benefited from our vertical integration through Severstal Resources, as coal and iron ore prices started to rise in September and into Q4. We will continue to closely control operational and capital expenditure in order to maintain our low cost position in our Russian Steel operations.

Capital expenditure for 9m 2009 was \$724 million, in line with our target of \$1 billion for FY 2009.

Severstal has a strong cash position and committed unused credit lines in place to meet its short-term debt requirements. As at 30 September 2009, Severstal had \$3,161 million of cash, cash equivalents and short-term bank deposits (as at 30 June 2009: \$2,579 million). Due to a reduction in inventories and better cash management, the Group released a further \$442 million of cash from working capital in Q3, bringing the total for 9m 2009 to \$1,478 million. As a result, we have already exceeded our target of reducing working capital by \$1.2 billion in 2009. Net debt was \$4,714 million as at 30 September 2009 (as at 31 December 2008: \$4,784 million) with short term liabilities of \$1,495 million.

As a result of prudent and effective working capital management, we continue to generate healthy levels of cash. Free cash flow was \$279 million for Q3, a significant increase on Q2 (Q2 09: \$18 million).

During the quarter, we successfully agreed covenant amendment to our major banking facility.

In September, we were pleased to announce that our RUB 15 billion bond issue was 3.7 times oversubscribed. The results of this placing underscore the Company's strong financial position, with a portion of the proceeds used to pay down short-term debt and further improve our credit position.

Severstal Russian Steel

This division delivered a strong performance in Q3 with revenue and EBITDA improving significantly quarter on quarter. Revenue increased by 29.0% in Q3 to \$1,728 million (Q2 09: \$1,340 million). Demand for pipe plate improved in Q3 and there was a seasonal pick-up in demand from the construction market. Other than in these two segments, domestic demand remained weak compared to historic levels. Sales volumes were 29.5% higher quarter on quarter in Q3 and average sales prices were slightly lower in Q3 compared to Q2. Q3 EBITDA increased by 79.8% to \$435 million (Q2 09: \$242 million), producing an EBITDA margin of 25.2% (Q2 09: 18.1%). We have continued to successfully implement our cost management initiatives, with the cost per unit of slab production (including depreciation and amortisation) decreasing by 8% quarter on quarter in Q3.

Revenue for 9m 2009 was \$4,225 million (9m 08: \$10,294 million) as a result of the unfavourable pricing environment and lower sales volumes, particularly in early 2009. Export sale volumes increased from 36.9% of total sales in 9m 2008 to 53.2% in 9m 2009. EBITDA was \$765 million in 9m 2009 (9m 08: \$3,389 million) with an EBITDA margin of 18.1% (9m 08: 32.9%). For the 9m period, the cost per unit of slab production (including depreciation and amortisation) decreased by 45% year on year due to Rouble depreciation and cost cutting initiatives.

Severstal Resources

Q3 revenue grew 13.3% to \$470 million (Q2 09: \$415 million) as a result of increased sales volumes. This positive change primarily reflects an improvement in demand in the North American market. Q3 EBITDA increased to \$88 million (Q2 09: \$86 million) and EBITDA margin was 18.7% (Q2 09: 20.7%). The cost per unit of production was down quarter on quarter at both Karelsky Okatysh (down 2.9%) and Olkon (down 13.8%).

In September, following higher demand for primary raw materials and steady growth in steel production, Russian selling prices for coking coal concentrate increased. In Q3, quarter on quarter production of coking coal concentrate increased by 15.4%. The strongest growth was in PBS Coals in the US, where production of coking coal concentrate was 185K tonnes in Q3, five times more than in Q2 (Q2 09: 37K tonnes).

9m revenue was \$1,250 million (9m 08: \$2,017 million) as a result of lower year on year sales volumes and prices. EBITDA was \$215 million (9m 08: \$817 million) and the EBITDA margin was 17.2% (9m 08: 40.5%). The cost per unit of production was 26.2% lower in Vorkutaugol, 23.4% lower in Karelsky Okatysh and 22.2% lower in Olkon in 9m 2009 compared to the same period in 2008.

Severstal's gold business contributed \$98 million to EBITDA increment during the 9 months, as a result of favourable gold prices and organic growth in production units. The cost per unit of production of gold fell 9.2% in 9m 2009 versus the same period in 2008. 368 Koz of gold were produced in 9m 2009 (9m 08: 110 Koz).

Severstal International

In our North American operations, Q3 revenue increased 18.5% to \$1,081 million (Q2 09: \$912 million). Sales volumes were up 20.6% quarter on quarter in Q3, while average steel sales prices remained flat. Our North American operations delivered a significant improvement in EBITDA to negative \$78 million in Q3 (Q2 09: negative \$236 million). In Q3, the quarter on quarter cost per unit of production of hot-rolled band was, respectively, 6.8% and 11.4% lower at Dearborn and Sparrows Point. This was achieved through further improvements in cost management. At Columbus the quarter on quarter cost per unit of production went up by 11.2% as the price of scrap was increasing.

For the 9 months, revenue was \$2,965 million (9m 08: \$3,966), with the decline resulting from lower volumes and prices. This division reported negative EBITDA of \$557 million for the 9m (9m 08: \$451 million).

We continue to manage our North American business to ensure that it will be profitable and cash positive going forward. Whilst the measures we have taken to date have delivered early improvements, management is currently discussing a more in depth operational plan for 2010 with the unions.

Although we believe that North American market will continue to improve and that we will achieve better capacity utilisation, we do not expect a strong market recovery in 2010. As such, we will continue to focus on agreeing our operational plan, delivering further cost reduction and tightly managing capital expenditure.

The European market has continued to be difficult during Q3 and has not experienced the same level of improvement in demand as either the US or Russian markets. Nonetheless, the performance of our European operations stabilised quarter on quarter in Q3 at negative EBITDA of \$83 million (Q2 09: negative \$86 million). The blast furnace in Piombino was idle for 24 days in July and August in response to the seasonal drop in demand and this resulted in a 19.6% quarter-on-quarter decrease in crude steel production in Q3. Lucchini's cost per unit of billet production was 3.8% lower quarter on quarter in Q3 due to cost saving initiatives.

Lucchini's 9m revenue was \$1,224 million (9m 08: \$3,323 million) and EBITDA was negative \$212 million (9m 08: positive \$431 million). Sales volumes nearly halved from the comparative period of 2008.

We will continue to implement initiatives to improve operational efficiencies and working capital management and to reduce costs. We expect benefits from these initiatives to impact next year. In addition, management is exploring a number of other initiatives to support a sustained improvement in the operational performance and profitability of Lucchini. These include:

- Further diversification of the supplier base to improve competitiveness and raw material input prices

- Further enhancement of the product portfolio to broaden the product mix and improve our market position
- Improving capacity utilisation and increasing the production of additional semi-finished products to increase participation in the international spot market for slab and billets

Financial Summary for the nine months ended 30 September 2009

Group **revenue** was \$9,135 million (9m 08: \$18,373 million), as a result of lower sales volumes and pricing. **Loss from operations** was \$503 million (9m 08: profit of \$4,255 million). **Group operating margin** was negative 5.5% (9m 08: 23.2%).

EBITDA was \$207 million (9m 08: \$5,067 million). **Net loss attributable to shareholders** was \$878 million (9m 08: net profit of \$3,243 million).

EPS was negative \$0.87 (9m 08: \$3.22).

Net cash from operating activities was \$843 million (9m 08: \$2,148 million) which was attributable to a significant decrease in revenue, partially offset by the release of \$1,478 million from working capital and a reduction in costs. **Net debt**, calculated as total indebtedness less cash and cash equivalents, less short-term bank deposits, decreased to \$4,714 million as at 30 September 2009 (as at 31 December 2008: \$4,784 million). Total indebtedness was \$7,875 million as at 30 September 2009 (as at 31 December 2008: \$8,256 million). Cash, cash equivalents and short-term bank deposits were \$3,161 million as at September 30 2009 (as at 31 December 2008: \$3,472 million).

Dividend

The Board of Severstal is not recommending payment of a dividend for Q3 2009. We do not anticipate a dividend payment for Q4 2009.

Outlook

Whilst a seasonal correction in Q4 2009 cannot be ruled out, we believe there will be continued stability in our main markets for the remainder of 2009. In Russia we expect steady recovery in demand from key consuming industries with export sales remaining high. Although it is still early, we anticipate further improvement in both the US and European markets in 2010, but not to pre September 2008 levels. In the US, the restructuring we are undertaking is expected to deliver a more flexible cost base and improve our competitiveness in 2010. In Europe, further cost cutting should improve the financial performance of Lucchini.

Further improvements in the global steel markets will continue to depend on the pace of economic recovery and production and pricing discipline in the industry.

For further information:

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A conference call for investors and sell side analysts will be held on Thursday, 19 November 2009 at 6.30pm (Moscow), 3.30pm (London), 10.30am (US East Coast).

Dial-in details:

UK Standard & International: +44 (0) 1452 555 566
Russia Free call: 8108 002 097 2044
UK Free call: 0800 694 0257
USA Free call: 1 866 966 9439

Conference ID: 41188805

The call will be recorded and there will be a replay facility available as follows:

International Dial in: +44 (0)1452 55 00 00
UK Free Call Dial In: 0800 953 1533
USA Free Call Dial In: 1 866 247 4222

Replay Access Number: 41188805#

Further information on Severstal can be found on our website at www.severstal.com