Novolipetsksk Steel (NLMK) – Duferco Joint Venture

November 2006
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Agenda

- Transaction summary
- NLMK-Duferco JV profile
- Transaction rationale and synergies
- NLMK-Duferco JV development strategy
Novolipetsk Steel (NLMK) and Duferco Group (Duferco) have agreed to establish a Joint Venture (JV) to acquire certain steel production facilities currently owned by Duferco in Western Europe and the USA.

- **NLMK acquires 50% interest in the JV for approx. USD 805 mln**
  - Source of financing: NLMK’s existing cash funds
- **Duferco controls remaining 50% in the JV**
- **JV includes 1 steel plant and 5 rolling mills with total finished steel output in 2006 of 4.5 mln tonnes and a network of service centers**
- **Transaction is expected to be completed by the end of 2006**
- **Estimated synergy effect - approx. USD 330 mln**
The main companies to be acquired by the JV include:

**INDUSTRIAL GROUP**
- Duferco Clabecq S.A. (Belgium) 99.7%
- Duferco La Louvière S.A. (Belgium) 87.9%
- Duferco Coating S.A.S. (France) 90.6%
- Acciaierie Grigoli S.p.a. (Italy) 75%
- Carsid S.A. (Belgium) 100%
- Duferco Farrell Corp. (USA) 100%

**DISTRIBUTION GROUP**
- SAFEF Thionville S.A.S. (France) 100%
- SAFEF Belgique S.A. (Belgium) 100%
- Duferco France S.A. (France) 100%
- New Steel S.N.C. (France) 100%
- Duferco Profil Batiment S.N.C. (France) 100%
- Duferco Aciers S.A. (France) 99.9%
- Jemappes Steel Center S.A. (Belgium) 100%
- Manage Steel Center S.A. (Belgium) 50.1%
- Rosso Steel AS (Czech Republic) 50.0%
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Joint Venture production facilities profile (1)

**Duferco La Louvière S.A. (rolling mill)**
- Flat products producer controlled by Duferco since 1999
- Production capacity
  - Hot rolled coils: 2.0 mln TPY
  - Cold rolled coils: 1.6 mln TPY
  - Wire rod: 0.36 mln TPY
- Finished steel production in FY2006*: 2.1 mln tonnes
- Employees: 1508
- Location: La Louvière, Belgium

**Carsid S.A. (steel mill)**
- Semi-finished steel producer located in Belgium controlled by Duferco since 2004
- Production capacity
  - Slabs: 2.1 mln TPY
- Slab production in FY2006*: 1.85 mln tonnes
- Employees: 1250
- Location: Marcinelle, Belgium

*For financial year, ended 30 September, 2006*
Joint Venture production facilities profile (2)

**Duferco Clabecq S.A. (plate mill)**
- Thick plates producer controlled by Duferco since 1997
- Rolling capacity: 0.8 mln TPY
- Plate production in FY2006*: 0.6 mln tonnes
- Employees: 542
- Location: Ittre, Belgium

**Duferco Coating S.A.S. (cold rolling mills)**
- Coated steel producer controlled by Duferco since 2003 comprising two production units – Sorral and Beautor
- Employees: 520
- Location: Strasbourg and Beautor, France
  - **Duferco Coating Sorral**
    - Rolling capacity
      - Hot dip galvanized steel: 0.32 mln TPY
      - Pre-painted steel: 0.12 mln TPY
    - Finished steel production in FY2006*: 0.27 mln tonnes
  - **Duferco Coating Beautor**
    - Rolling capacity
      - Cold-rolled steel: 0.35 mln TPY
      - Electrogalvanized steel: 0.33 mln TPY
    - Finished steel production in FY2006*: 0.24 mln tonnes

*For financial year, ended 30 September, 2006*
Duferco Farrell Corp. (rolling mill)
- Flat products producer controlled by Duferco since 1999
- Rolling capacity:
  - Hot-rolled coils: 1.8 mln TPY
  - Cold rolled coils: 0.8 mln TPY
- Finished steel production FY2006*: 1.6 mln tonnes
- Employees: 568
- Location: Farrell, PA, USA

Acciaierie Grigoli S.p.a. (heavy plate mill)
- Heavy plates and forging ingots producer controlled by Duferco since 2005
- Production capacity:
  - Heavy plates: 0.6 mln TPY
- Finished steel production in FY2006*: 0.15 mln tonnes
- Employees: 135
- Location: Verona, Italy

*For financial year, ended 30 September, 2006
**Joint Venture distribution facilities**

**Duferco Transformation Europe S.A. (DTE)**

- Duferco Transformation Europe is wholly owned JV subsidiary comprising a network of service centers in the EU
- DTE consists of 9 companies located in Belgium, France and Czech Republic engaged in the distribution of products manufactured by JV companies and third parties
- Main equipment: slitting, cutting to length, blanking, profiling, laser cutting, pressing, folding lines
- Total product flow in FY2006*: approx. 1.0 mln tonnes (85% - group products, 15% - external products)
- Employees: 473

*For financial year, ended 30 September, 2006*
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- NLMK-Duferco J V development strategy
Transaction rationale

- **Production profiles make NLMK and Duferco natural partners**
  - NLMK has excess upstream (liquid steel) capacity
  - Duferco lacks upstream capacity and has excess rolling capacity

- **Strategies of NLMK and Duferco are complementary**
  - NLMK aims to expand its upstream platform increasing production of low cost high quality slabs and to re-roll them in its core markets, including Europe and USA
  - Duferco aims to expand its rolling capacity increasing production of high value-added steel grades

- **NLMK and Duferco already enjoy substantial trade volumes**
  - During the last 10 years total trade turnover between NLMK and Duferco exceeded USD 1.5 bln in direct supplies (3.5 mln tonnes) and trading (2.8 mln tonnes)
  - In the first 10 months of 2006 NLMK sales to Duferco reached USD 165 mln (supplies of 0.5 mln. tonnes of slabs).
### JV companies - slab/rolling balance

**Thousand tonnes, FY2006***

<table>
<thead>
<tr>
<th>JV FINISHED STEEL PRODUCTION</th>
<th>INTERNAL SLAB PRODUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DUFERCO LA LOUVIERE+COATING</strong></td>
<td>2,395</td>
</tr>
<tr>
<td><strong>DUFERCO CLABECQ</strong></td>
<td>600</td>
</tr>
<tr>
<td><strong>DUFERCO FARRELL</strong></td>
<td>1,430</td>
</tr>
<tr>
<td><strong>ACCI AI ERI E GRI GOLI</strong></td>
<td>145</td>
</tr>
</tbody>
</table>

**TOTAL JV FINISHED STEEL PRODUCTION**: 4,560

**TOTAL JV SLAB PRODUCTION**: 2,100

**TOTAL JV SLAB CONSUMPTION (incl. yield)**: 4,420

**PURCHASED SLABS**: 2,320

*For financial year, ended 30 September, 2006*
Joint Venture configuration advantages

- Well-diversified product portfolio with strong emphasis on value added flat products
- Over 70% of JV costs are material expenses with slabs purchasing costs being the main driver
- Currently JV meets nearly 48% of its slab requirements internally, the rest is purchased from third parties
- NLMK will meet increasing JV requirements in slabs to support current production and planned growth in flat steel output
Duferco JV is in line with NLMK’s stated ‘Sustainable Growth Strategy 2007-2011’

Duferco JV will advance NLMK’s stated growth strategy:
- Obtaining access to high quality rolling facilities allows diversification and expansion of high value added products portfolio
- Leveraging main competitive advantage through increasing semi-finished steel production at low cost platform in Russia
- Strengthening NLMK’s leadership in flat steel products in its core export markets
### Preliminary synergies analysis

**Duferco JV synergy effect is estimated at USD 55 mln per year starting 2010. Total cumulative synergy effect is estimated at USD 330 mln**

<table>
<thead>
<tr>
<th>Industrial configuration (incl. slab synergies)</th>
<th>NLMK plans to increase slabs supply to the JV rolling facilities from 1.2 mln tonnes in 2007 to 3.6 mln tonnes in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>$262 mln</td>
<td>This will support output growth and guarantee balanced utilization of JV production facilities</td>
</tr>
<tr>
<td>Plate market synergies</td>
<td>Optimization of product mix and logistics between DanSteel, Duferco Clabecq and Acciaierie Grigoli</td>
</tr>
<tr>
<td>$51 mln</td>
<td>Commercial synergies due to market share increase</td>
</tr>
<tr>
<td>Commercial and marketing synergies</td>
<td>Expanding customer reach and market penetration through utilizing JV service centers network and distribution capabilities in Europe and the US</td>
</tr>
<tr>
<td>$17 mln</td>
<td>Achieving proximity to customers in the largest and most stable export markets</td>
</tr>
<tr>
<td>Diversification</td>
<td>Decreasing earnings sensitivity to steel prices fluctuations due to regional and product diversification</td>
</tr>
<tr>
<td></td>
<td>Strengthening market share in value added flat products</td>
</tr>
<tr>
<td>R&amp;D synergies</td>
<td>Cost savings resulting from optimization of R&amp;D and new product development efforts (mainly in flat products and plates)</td>
</tr>
</tbody>
</table>
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Semi-finished product strategy

- Volatility of finished steel sales is lower than that of slabs on a long-term basis
- Global slab supply is expected to grow faster than finished product
- The 2nd phase of the NLMK Technical Upgrading Program is focused on increasing production of slabs for JV purposes
- NLMK slab supply to JV companies will grow to 3.6 mln TPY by 2012

Steel price volatility *

- Standard deviation to average period price ratio:
  - Slab 42.7%
  - HR 38.1%
  - CR 33.9%

NLMK-JV cooperation

* Slab – CIS export, FOB Baltic/Black Sea port, coils – nominal period average base prices, fob parity point EU.
Source: CRU, MB
High value-added product strategy

- Obtaining access to high quality rolling production facilities in core markets
- Development of high value-added product portfolio that results in the reduction of earnings sensitivity to steel cycle

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<thead>
<tr>
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<th>Per cent share of high value-added steel*, %</th>
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<tbody>
<tr>
<td><strong>Posco</strong></td>
<td>60</td>
</tr>
<tr>
<td><strong>ThyssenKrupp Steel</strong></td>
<td>86</td>
</tr>
<tr>
<td><strong>Novolipetsk Steel 2006</strong></td>
<td>42</td>
</tr>
<tr>
<td><strong>Novolipetsk Steel² + JV 2006</strong></td>
<td>51</td>
</tr>
<tr>
<td><strong>Novolipetsk Steel + JV 2012 after investment program</strong></td>
<td>58</td>
</tr>
</tbody>
</table>

**NLMK sales structure**
- before creating JV 2006
  - Slabs & Pig iron 45%
  - Hot-rolled steel 13%
  - High value-added products* 42%

**NLMK+JV sales structure in 2012 after investment program**
- Hot-rolled steel 22%
- Slabs & Pig iron 17%
- Long products 3%
- High value-added products* 58%

Note:
* includes cold-rolled, hot-dip galvanized steel, pre-painted steel and electrical steel, plates, P&O, accord. to companies estimates
Novolipetsk Steel (NLMK)