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Severstal Will Spend $1.7Bln on Upgrades

By Irina Filatova

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Severstal said Monday that it plans to spend a total of $1.7 billion this year to modernize its facilities and carry out new projects in Russia and abroad as part of its development strategy until 2015.

The steel giant intends to "invest significantly" in its local assets, which is the major focus of Severstal's investment program for 2012, and it plans to complete the modernization of its North American facilities, the company's chief financial officer Alexei Kulichenko said in a statement.

Severstal plans to spend about $905 million on renovating its facilities in Russia and building a long product mill in Balakovo, in the Saratov region, according to the statement posted on the company's website.

The new generation minimill, which will produce steel for construction needs, is slated to

become operational in the second quarter of next year. The company valued the overall investment in the project at $700 million.

The steel giant's mining division will also spend approximately $659 million to modernize mines and facilities in Russia and the United States and develop existing greenfield projects in the republic of Tuva, Libya and Brazil.

The third portion of Severstal's capital expenditures, about $104 million, will go to the maintenance of its two plants in North America.

The large portion of investment in the mining sector is justified in light of high prices for raw material, while building the minimill will help the company increase output, said Dmitry Smolin, an analyst at UralSib Capital.

Severstal targets boosting steel output to 19.6 million tons by 2020 from 14.7 million in 2010, and coking coal output to 17.9 million tons compared with 7.3 million tons in 2010.

In addition, Kulichenko said the steel company will "continue to search for and analyze new investment opportunities."

Among possible investment options, Severstal is considering acquiring coal mining assets in Russia, the United States and Mozambique.

"They are all greenfield projects, which require [developing] infrastructure and significant investment," the company said in e-mailed comments.

The company also said it is eyeing new steelmaking projects in Russia, Brazil, the United States and India.

Severstal plans to build a steel production plant with annual output of 3 million tons in India jointly with state-run miner NMDC. But the project has stalled because of the sides' disagreement over the size of stakes in the joint venture and delays in mining linkages, Reuters reported earlier this month, citing a senior official in the Indian company.

Kulichenko said investing in new projects would help Severstal achieve its goal of becoming one of the world's five largest steelmakers by EBITDA by 2015.

With EBITDA of $3.3 billion, Severstal was ranked eighth in 2010 in the list of global steelmakers, according to a presentation it released late last year.

Severstal's EBITDA in 2011 is expected to reach $3.8 billion before declining to $3.6 billion this year, UralSib's Smolin said.

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