CFO's speech

Good afternoon ladies and gentlemen.

Slide 1 – Sales Overview

If we compare the business environment of the 2nd quarter to that of the 1st one, the 2nd quarter in general can be characterized by stable, sometimes slightly decreasing prices in some of our core markets, like steel, ferrochrome, power, steam coal and iron ore, whereas markets such a coking coal and nickel were finding a new bearing at a completely different level, suggesting much better results down the road, which were yet to materialize in the 2nd half of the year. At the same time we witnessed smaller demand volatility across all our key markets, with upward trends, which was pivotal for our decision to start increasing capacity utilization in all our businesses in order to utilize these trends with support of our distribution power.

As our actions aimed at growth of sales and production took some time to unfurl, their economic result was not yet visible in the 2nd quarter just like the demand stabilization did not yet translate into distinctive price improvement. As a result the consolidated revenue grew only 9% to 1.3 bln dollars over the 1st quarter of the year. Gross profit decreased by 17% to 311 mln dollars mainly due to a reduction in gross result of the mining and power segment, partially compensated by better performance of the steel and ferroalloy segments. The gross margin posted 24% largely as a result of increase in weight of a lower margin steel sales in the consolidated result and decrease in the mining segment margin as last year contracts for coking coal expired and fixing of shipments for the new financial year just began at a lower price and volume level.

Consolidated EBITDA for the 2nd quarter of 2009 rose to 370 mln dollars or 29%. That was mainly due to an FX gain of 304 mln dollars, although even if stripped of the FX effect EBITDA was still 66 mln dollar positive. Net loss of 691 mln dollars in the 1st quarter turned into 219 mln dollars of Net Income in the 2nd. In total the 2nd quarter FX gain did not yet offset the FX loss in the 1st quarter. Therefore overall for the 1st half of 2009 the Group showed 2 billion 460 mln dollars of consolidated revenue, 104 mln dollars of EBITDA loss and 471 mln dollars of Net Loss.

Slide 2 – Steel Sales: Structure and Prices

The results of the steel segment are primarily characterized by an overall increase in sales volumes as markets stabilized. At the same time price trends varied as growth in steel capacity utilization in Russia and developing countries was catching up with growing demand. For example prices for carbon and low-alloyed forgings on FCA basis grew 39% q-t-q, for coke – 5%, for wire – 7%, whereas low-alloyed flat steel and stainless long products decreased 18% and 30% respectively. The price for rebar grew slightly by 2%. Having advantage of own distribution network in Russia, CIS and Europe we managed to pick up the growing demand and increase the capacity utilization faster than our competitors and enter the 3rd quarter with virtually 100% production load in long steel. Most visible increase in physical sales volumes was in rebar – up 25%, wire – up 14%, low-alloyed engineering steel – up 40%, whereas volumes of semi-finished steel fell 26% as we shifted focus to higher-margin products.

Consequently, the revenue from 3rd parties grew 17% to 755 mln dollars in the 2nd quarter vs the 1st one, the gross profit jumped 52% to 84 mln dollars, whereas cost of sales increased by only 12%, which reflects the falling cost per tonne of production. The cash cost per tonne of exported billet at Chelyabinsk fell to 260 dollars, rebar – 285 dollar. Selling expenses somewhat increased from 12%

to 14% of revenue. That was largely due to the fact that in the 2nd quarter sales shifted from semi-finished products on FOB terms to final customer sales with distribution expenses accounted for by the seller. Administrative expenses fell from 7% to 6% of the revenue as a result of continuing optimization efforts. As a result operating loss decreased 14% to 73 mln dollars for the segment.

The segment posted a positive EBITDA of 80 mln dollars as opposed to a negative result of 260 mln dollars in the previous quarter. Most of the increase came from the 115 mln dollars FX gain for the segment. The Net Income also posted a marginally positive result of 37 mln dollars vs a 358 mln dollar loss in the 1st quarter. However, even if the FX effect is stripped from both quarters, the 2nd quarter result is 36% higher than the one for the previous quarter. Overall, for the 1st half of 2009 the segment posted a nearly 1.4 bln dollar revenue from 3rd parties, a 181 mln dollar negative EBITDA and a 322 mln dollar Net loss on the total FX loss of 121 mln dollars.

Slide 3 – Mining Sales: Structure and Prices

As I mentioned before, the 2nd quarter for the mining segment can be characterized by the expiration of the high price overseas contracts which were still a dragging positive factor in the 1st quarter of 2009 whereas new contracts were just being signed at a lower level. That resulted in a 24% fall in average realized price for coking coal in the 2nd quarter as compared to the previous one. The visible sales under new contracts began to reflect towards the end of the reported period with most of the effect spilling into the 2nd half of the year. However, the stabilization in the overseas markets provided a platform for ramping up coking coal production, especially at Yakutugol, which increased output of coking concentrate by approximately 470%, whereas Southern Kuzbass, which was operating at much higher capacity utilization in the 1st quarter, also increased output by 47%.

Sales reflected the production: coking coal sales volumes increased by 42% excluding the effect of Bluestone sales volumes. Iron ore sales also went up by 43% mostly due to increased volumes, but that was all not enough to compensate for a 21% decrease in sales revenue from steam coal, which was the main selling item in the 1st quarter with 64% share in the segment's revenue. The decrease was almost entirely attributable to lower physical volumes of sales and was natural for a much warmer quarter on the one hand. On the other hand, production volumes of steam coal at Yakutugol more than halved in the 2nd quarter as production was shifted to the more expensive and sellable coking coal**.**

As a result the segment's revenue decreased insignificantly or 4% to 331 mln dollars, but due to the mentioned above fall in average sales prices for coking coal, gross profit decreased to 164 mln dollars or 22%, resulting in a gross margin of 43%. Another factor affecting the gross item was a 19% increase in cost of sales. This is attributable to a 51% increase in depreciation (excluding the effect of Bluestone) mainly due to the decrease of stocks at Sothern Kuzbass Coal Company and Yakutugol, as well as the increase of mining volumes mentioned above. The cash cost for coking coal concentrate in Southern Kuzbass increased from 36 to 40 dollars a tonne, whereas cash cost of steam coal increased from 13 to 15 dollars, which in both cases is associated with higher investment in future production. At the same time the ramp-up of production at Yakutugol lead to a sharp decrease in the cash costs, which fell from 53 dollars to 38 dollars for a tonne of coking coal concentrate, as the cash cost of steam coal remained flat at 22 dollar a tonne. The cash cost of iron ore concentrate decreased to 24 dollars a tonne.

In the 2nd quarter of 2009, Bluestone Coal Group financial performance is included in Mining Segment since the date of acquisition, May 7th, 2009. In our financial accounts for the 6 months of

2009 Bluestone assets were included at historical values, which excludes mineral licenses. As a result of that we posted a goodwill of 1 bln dollars. We intend to complete valuation of the company's fixed assets and mineral licenses by the end of the year and include the new figures in our accounts. Consolidation of Bluestone's financial results for the period lead to increase of domestic sales by 11 million dollars, export sales by 5.5 million dollars, a decrease in Operating income by 14.6 million dollars. Since the 7th of May 2009 till the 30th of June 2009, sales volumes in Bluestone amounted to 201 thousand tonnes of coal, including 93 thousand tonnes of coking coal and 108 thousand tonnes of steam coal. These 54 days of consolidation were in fact the transition period from previous management to our control when the company's performance was affected the most.

The selling and distribution expenses fell by 41 mln dollars or 36%, their share in the revenue decreased from 29% in the 1st quarter to 19% in the 2nd one. The decrease in steam coal export sales resulted in reduced selling and distribution expenses, whereas continuing anti-crisis measured resulted in a 3.2 mln dollar decrease in expenses on personnel. All that filtered into the segment's net operating result of USD 13 mln. The segment's EBITDA grew 233% to 139 mln dollars mainly due to the 48 mln dollars FX gain. The net interest expense from 3rd parties increased to 61 mln dollars or 23% in the 2nd quarter is largely attributable to the 3-year 1 bln dollar loan from Gazprombank taken in the end of the 1st quarter to refinance the Oriel bridge facility. The Net result also turned positive with a 50 mln dollar profit**.** Overall, for the 1st half of 2009 the segment posted a 675 mln dollar revenue from 3rd parties, a 181 mln dollar EBITDA and a 16 mln dollar Net loss on the total FX loss of 13 mln dollars.

Slide 4 – Ferroalloy Segment

The ferroalloy segment demonstrated the most significant growth in the 2nd quarter with revenue from sales to the 3rd parties jumping 43% to 77 mln dollars. That was largely due to the recovery of production at our nickel and ferrochrome plant, which reached pre-crisis levels. The increase of average nickel price on FCA basis by 10% and stable demand allowed us to increase sales by 38%, whereas chrome sales volumes more than tripled despite a 14% decrease in average realized price on FCA basis. That was however fully compensated by sale of the stock, which was accounted and provided for as obsolete, and decrease in the cost of sales as Tikhvin plant fully switched to the chrome ore from Voskhod mine. That factor along with the production increase pushed cash costs for both nickel and chrome down to 13 ths dollars and approximately 2 300 dollars respectively. The sales volumes of ferrosilicon fell by 27% as Bratsk plant switched to production of a more material intensive 75 grade. At the same time production cash costs of ferrosilicon in the 2nd quarter of 2009 in comparison with the 1st quarter fell to 549 dollars per tonne due to the decrease of coke purchase prices.

That all helped to reverse the segment's gross loss of almost 15 mln dollars in the 1st quarter into a profit of 4.4 mln dollars. The operating expenses fell as a share of revenue from 17% to 11%. The selling and distribution expenses fell 37% in absolute terms and by almost 50% to 50 dollars a tonne for the whole segment, mostly as a result of a switch in sales of FeCr to FCA terms. The bad debt provision expenses reversed resulting in a positive effect of 3 mln dollars as a result of receivables recovery. That translated into an operating loss of 5.5 mln dollars – a more than 4 times decrease over the 1st quarter. The EBITDA reversed from a 307 mln dollar negative in the 1st quarter to a 153 mln dollar positive in the 2nd one. If cleared from FX effect EBITDA would still show a positive trend from an 11 mln dollar loss to an 11 mln dollar gain. Net loss of 329 mln dollars for the 1st quarter turned into a Net Income of 126 mln dollars in the 2nd one. Overall, for the 1st half of 2009 the segment posted a 131 mln dollar revenue from 3rd parties, a 154 mln dollar negative EBITDA and a 203 mln dollar Net loss on the total FX loss of 154 mln dollars.

Power Segment

The results of the Power segment were expectedly lower in the 2nd quarter due to seasonal factor and overall reduction in demand as a result of overall economic slowdown. The revenue from 3rd parties decreased by 14% to 118 mln dollars, gross margin decreased slightly from 30% to 25%. As sales reduced, the selling and distribution expenses also fell 15% to 40 mln dollars. However, the growth in bad debt provision expenses by 2.1 mln dollars kept operating expenses approximately at the level of the 1st quarter which resulted in a marginal 200 ths dollar operating profit. The EBITDA of 5.1 mln dollars was a 63% q-o-q decrease as the EBITDA margin showed only 3%. The segment posted a 4.5 mln dollar Net loss as opposed a marginal 200 ths dollar income in the 1st quarter, which was the most successful for the segment especially in comparison to the other three. Overall, for the 1st half of 2009 the segment posted a 257 mln dollar revenue from 3rd parties, a 19 mln dollar EBITDA and a 4.3 mln dollar Net loss with negligible FX effect.

Cash generation capacity

Now turning to the cashflow analysis I can proudly say that despite only first signs of production and sales recovery, the working capital and cash management solutions adopted since the beginning of the crisis with a “hands-on” approach resulted in a significant improvement in cash generation capacity in the 2nd quarter. The operations generated 332 mln dollars cash – an 8 times growth over the preceding quarter. Recovery of receivables and reduction of inventory only resulted in a 270 mln dollar cash savings. As you can see on the Slide number 13 the cash generation capacity returned to the level of 2007 – and even above - as percentage of sales. Out of operating cash generated 203 mln dollars were used in investment activities, almost all – for purchase of property, plant and equipment. Another 129 mln dollars went to repay some of the short-term debt. The cash-in-hand reduced to USD 822 mln though due to ruble appreciation as most of the cash balance was held in foreign currency.

Debt profile

Gross debt increased by 62 mln dollars in the 2nd quarter largely due to consolidation of Bluestone and drawdowns under investment projects partly compensated by scheduled loan amortization. The 1.5 bln dollar debt stood as short-term as of the end of the 2nd quarter as the refinancing of that portion took place only in July**.** Subsequently the maturity of this debt was extended and the slide 14 shows the debt repayment schedule as it looks today. With over 660 mln dollars of cash in hand, 50 bln rubles of registered commercial paper and over 400 mln dollars in available credit lines in addition to the existing revolving working capital facilities we feel very comfortable with the current debt repayment schedule. The successful debt restructuring not only resolved the issue pending over the previous 3 quarters, but gave our company access to additional bank and public financing instruments, which now allow us to further optimize our debt portfolio and reduce the interest expenses as market liquidity improves. A good example is the recent placement of the 2nd 5 bln ruble tranche of the bond earmarked to finance the Elga project. The coupon was fixed at 12,5% for a 3-year put option, which is a record for our unsecured debt. That is also an example of the fact that successful debt restructuring gave us room to proceed with financing of our investment program, which is crucial for escalating the company to a completely new level of profitability.

FY2008 Results overview

To sum up – the 2nd quarter of 2009 was a turning point for our business as the downturn of the two previous quarters changed for upward trends in virtually all our market segments allowing us to restore the previously idled capacities and reach pre-crisis levels of production in the 3rd quarter, and in certain locations surpass them. The stabilization of the cashflow and resolution of the issues with debt allowed us to resume normal business and continue with our investment program. Although the world economy is far from stability and the existing trends are yet to prove to be sustainable in the long run, we look with satisfaction at how our business model weathered the worst of the economic and financial crisis with this performance laying ground for a better one in the 2nd half of the year.

Thank you for your attention, ladies and gentlemen, and now we will be pleased to answer your questions.