

**9 Months Results Presentation  
November 28, 2006**

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# Introduction and Overview

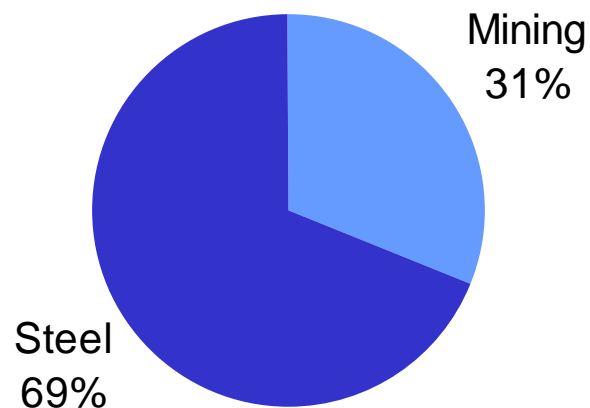
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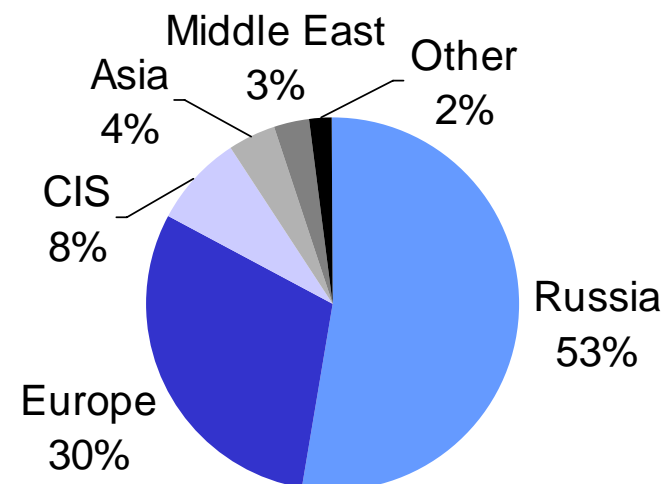
# Results Overview

- ◆ Record financial results - net profit for 9M06 is almost equal to net profit for the whole year 2005
- ◆ Net income in 9M06 was \$372 million on revenues of \$3.1 billion
- ◆ Consolidated EBITDA margin of 21.3%
- ◆ Further expansion in the steel segment: acquisition of Moscow Coke & Gas plant (Moskoks)
- ◆ Efficiency improvement programs in the steel segment: new coke battery commissioned at CMP - annual coke output increase by 500 thousand tonnes
- ◆ Maintained leadership in core products
  - 2<sup>nd</sup> largest coking coal producer and exporter
  - 2<sup>nd</sup> largest long product producer

**Revenue breakdown by product, 9M06**



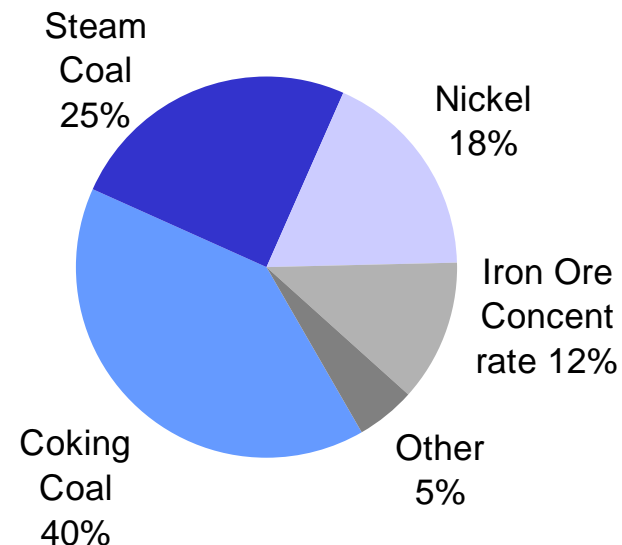
**Revenue breakdown by region, 9M06**



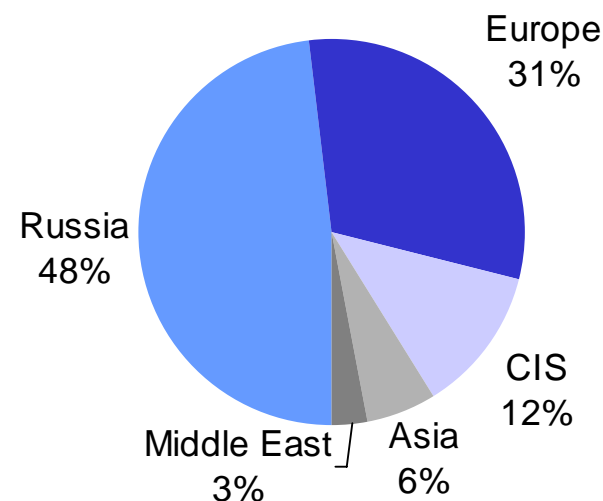
# 9M 2006: Mining Segment

- ◆ Operating income of \$190.5 million on revenues of \$975.4 million.
- ◆ EBITDA margin of 21.4 %\*
- ◆ Mining segment EBITDA represented 39% of consolidated EBITDA
- ◆ Strong segment output growth
- ◆ Nickel operations turned profitable, generating \$171 million in revenues

Revenue by product, 9M06



Revenue by region, 9M06

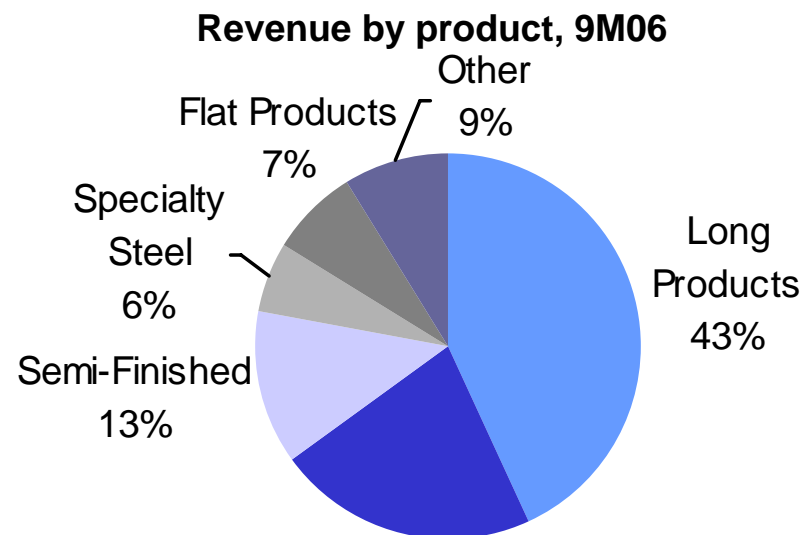


Product output, 9M06	Thousand tonnes	9M06vs.9M05, %
Coal	12,378	+6
Coking coal	6,938	+7
Steam coal	5,440	+5
Iron ore concentrate	3,748	+11
Nickel	10.53	+17

\* was corrected for comparison with other companies, margin is calculated out of consolidated revenues of the segment, including intersegment sales

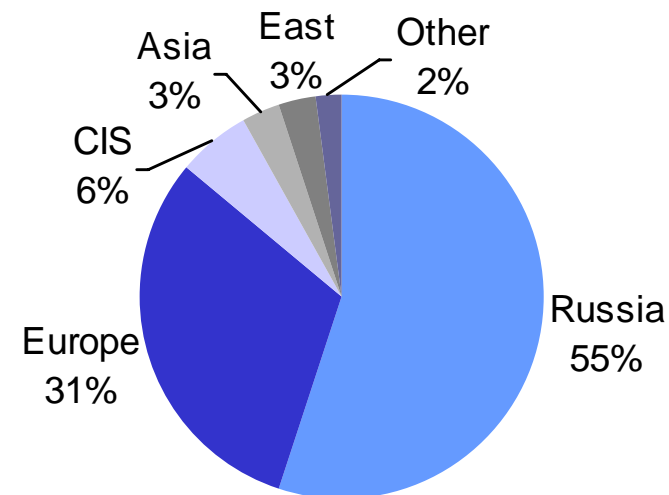
# 9M 2006: Steel Segment

- ◆ Revenues from 3<sup>rd</sup> parties of \$2,166 million in 9M06
- ◆ Steel segment EBITDA constituted 61% of consolidated EBITDA
- ◆ Net income generated by the segment soared by 384% compared to 9M 2005
- ◆ EBITDA margin rose to 18.6% from 8.9%



Value-added  
22%

**Revenue by region, 9M06**



Product output, 9M06	Thousand tonnes	9M06vs.9M05, %
Hardware	451	+9
Rolled products	3,523	+2
Flat products	296	+40
Long products	1,877	0
Steel	4,425	0
Pig iron	2,680	+8
Coke	1,663	- 15

\* was corrected for comparison with other companies, margin is calculated out of consolidated revenues of the segment, including intersegment sales

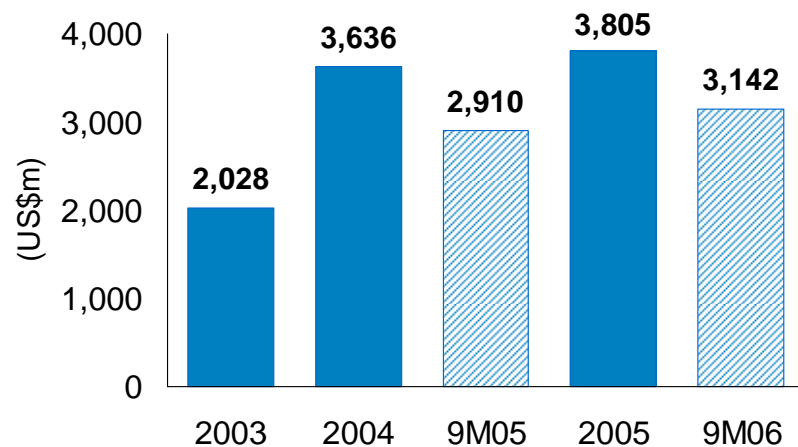


**Financial Review**

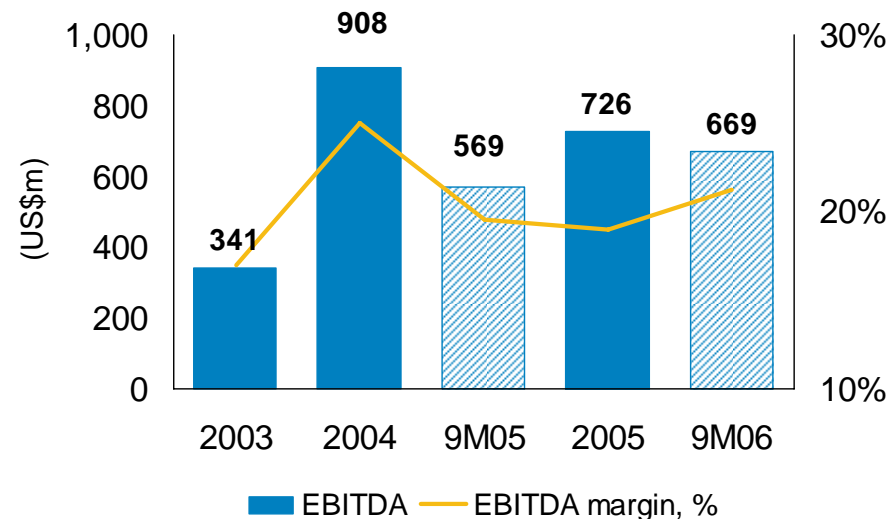
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# 9M 2006 Financial performance

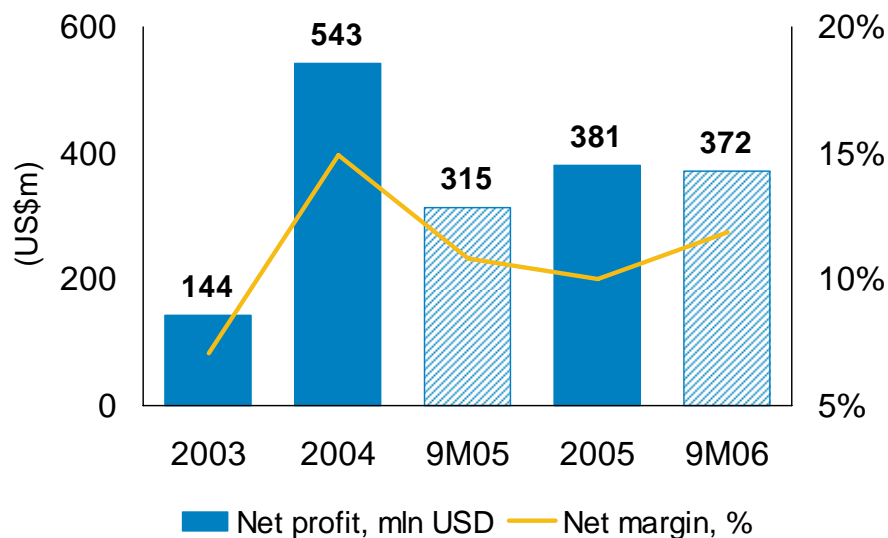
## Revenue



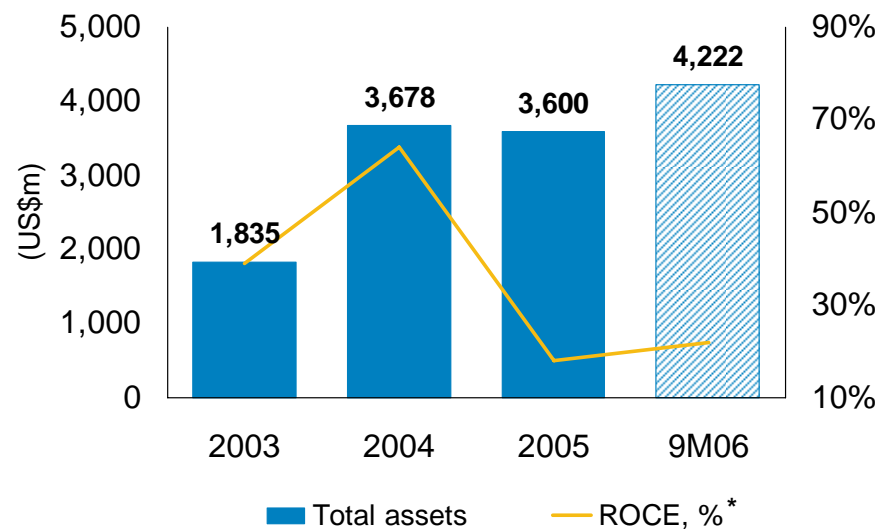
## EBITDA\*



## Net profit \*



## Total assets



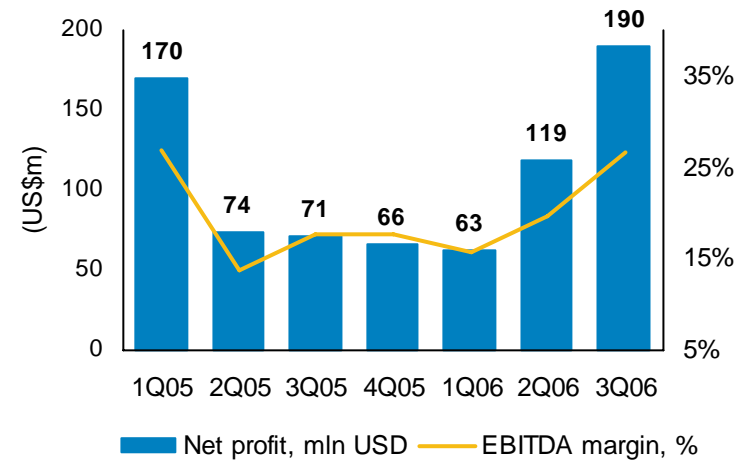
\* Excluding gain on the sale of the stake in MMK in 2004

# 9M 2006 Financial performance by quarters

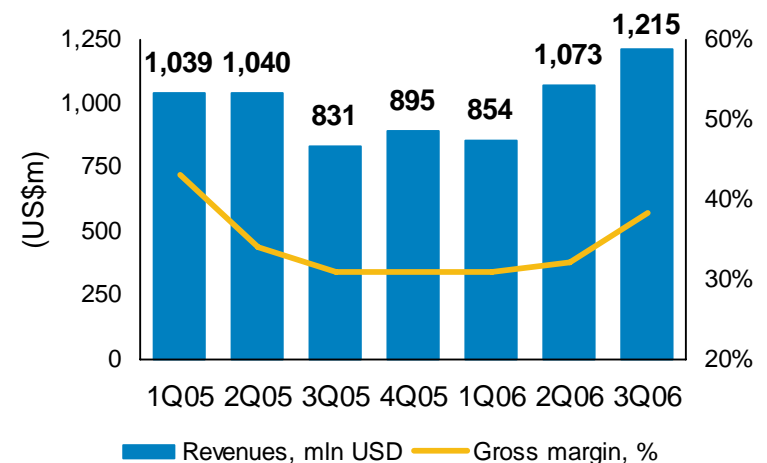


- ◆ Strong positive trend in profitability growth
- ◆ Two consecutive quarters of sustainable improvements in sales, net profit and EBITDA
- ◆ Previous capital expenditures started yielding results
- ◆ Favorable and stable market outlook

## Net Profit – EBITDA margin

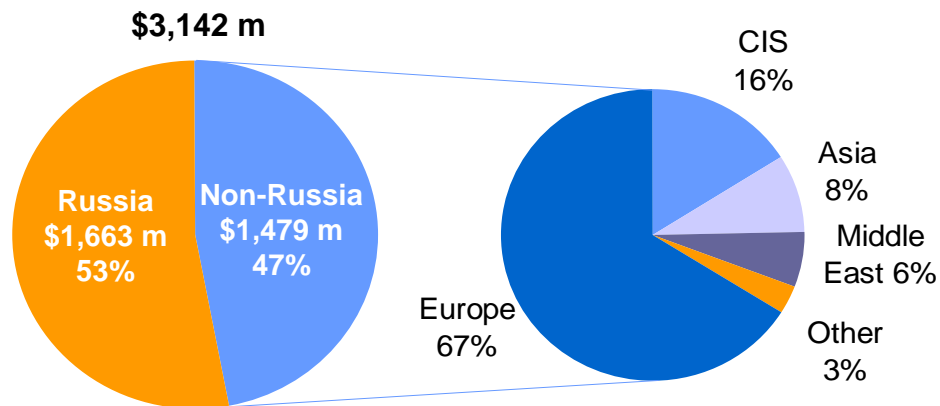


## Revenue – Gross margin

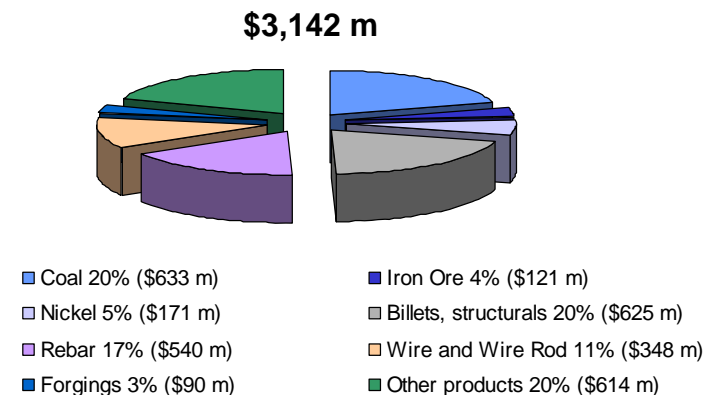


# Sales Structure

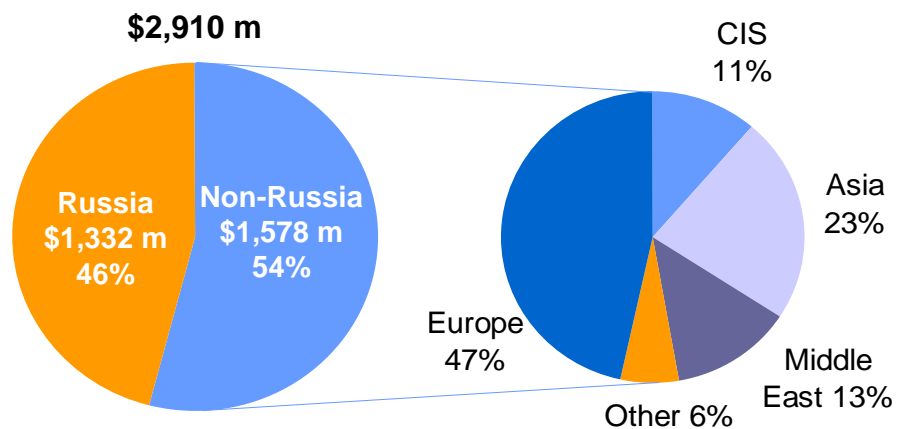
### Revenue breakdown by region, 9M06



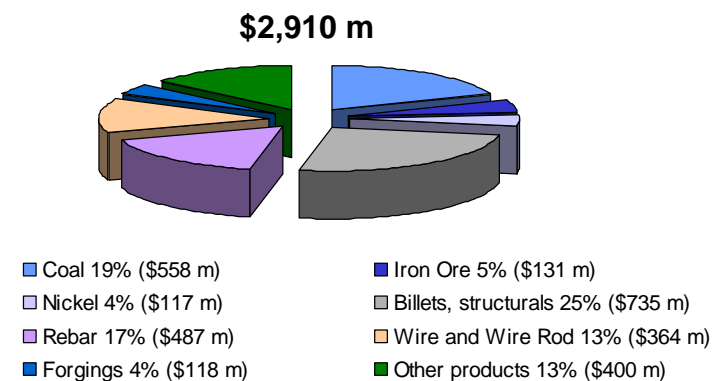
### Sales Mix, 9M06



### Revenue breakdown by region, 9M05

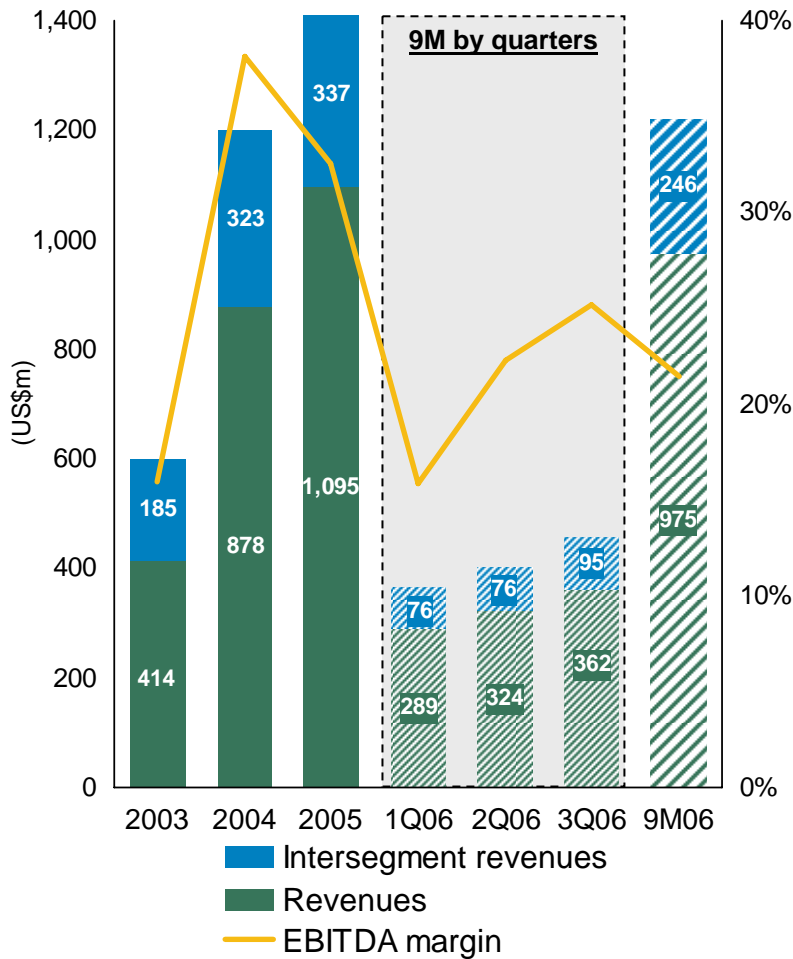


### Sales Mix, 9M05

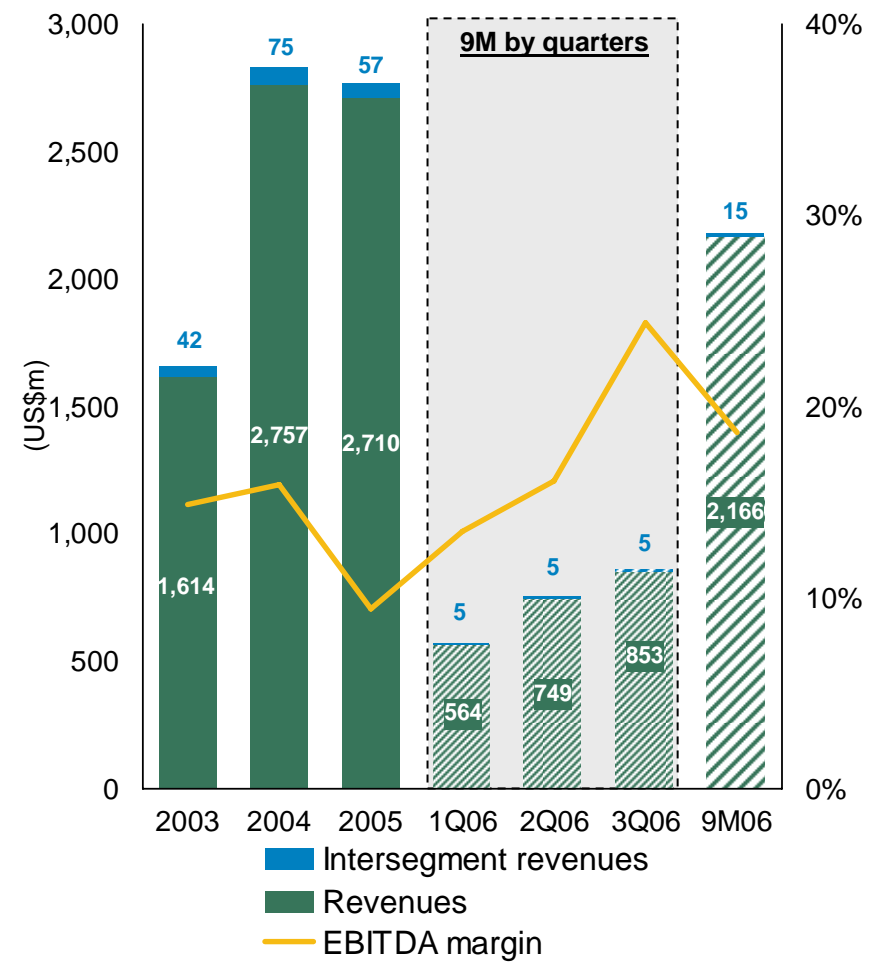


# Segment operations

## Mining segment



## Steel segment

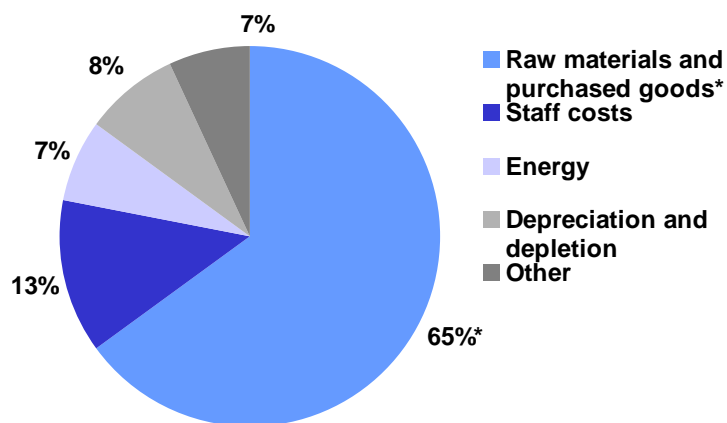


NOTE: EBITDA margin calculated by dividing reported EBITDA by total revenues, including intersegment revenues

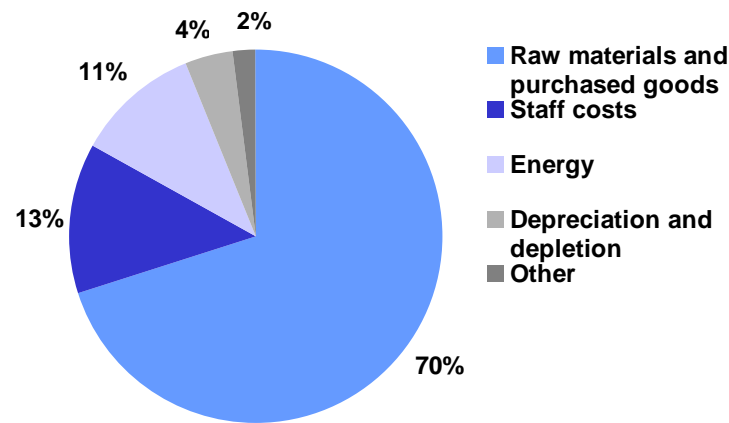
# 9M 2006 Cost Structure

- ◆ Selling expenses share to sales decreased to 10% from 12% as a result of sales structure changes
- ◆ G&A expenses remain flat due to strict cost management

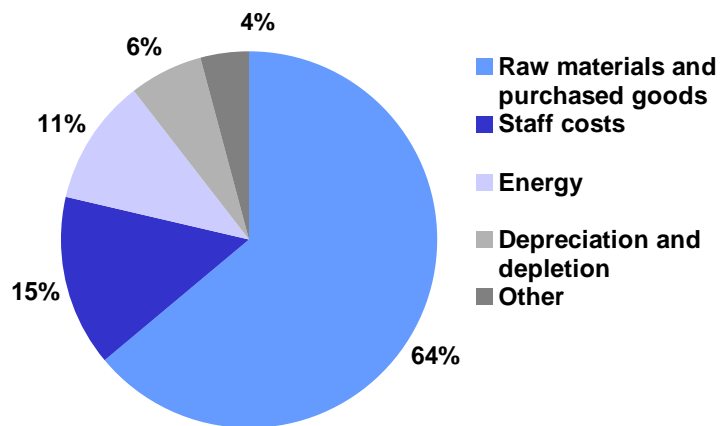
### Mining segment COS structure



### Steel segment COS structure



### Consolidated COS structure

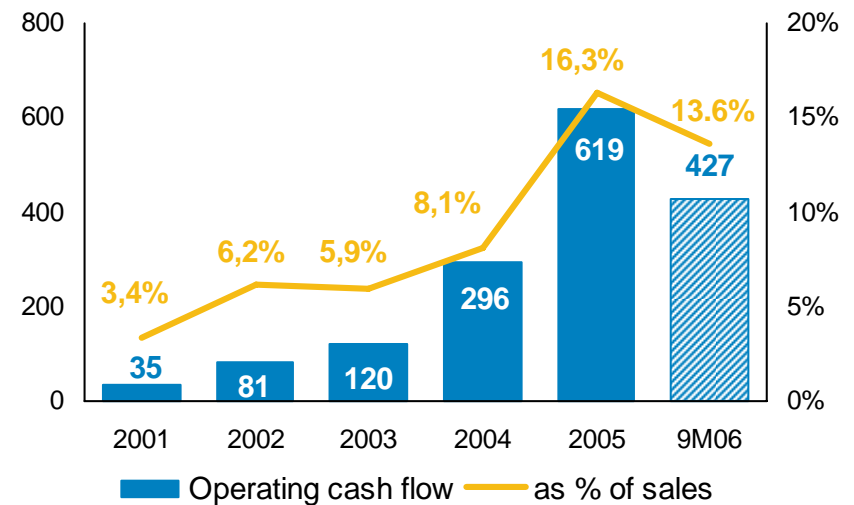


* Raw materials Mining segment	
Coal and Coke purchased from 3rd parties	34%
Materials	31%
Transportation	17%
Spare parts	10%
Fuel	8%
<b>Total</b>	<b>100%</b>

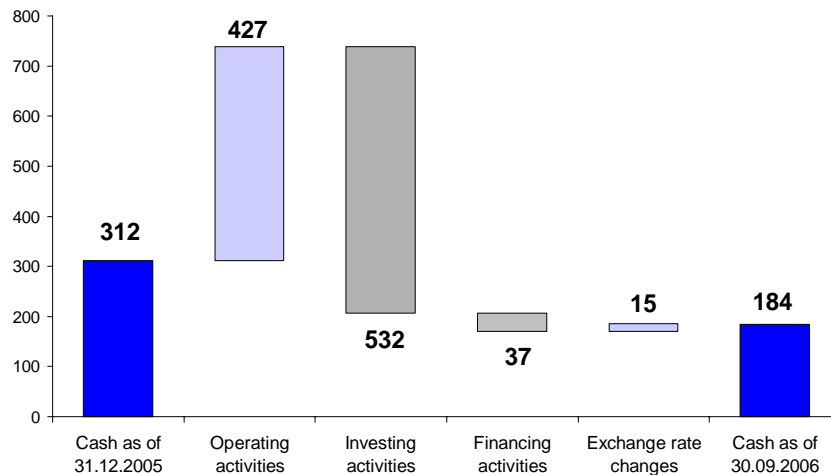
# Strong balance sheet to support growth

- ◆ \$442 million net debt position provides significant financial flexibility to:
  - Fund capex program
  - Pursue value enhancing M&A opportunities
  - Considerably expand current operations

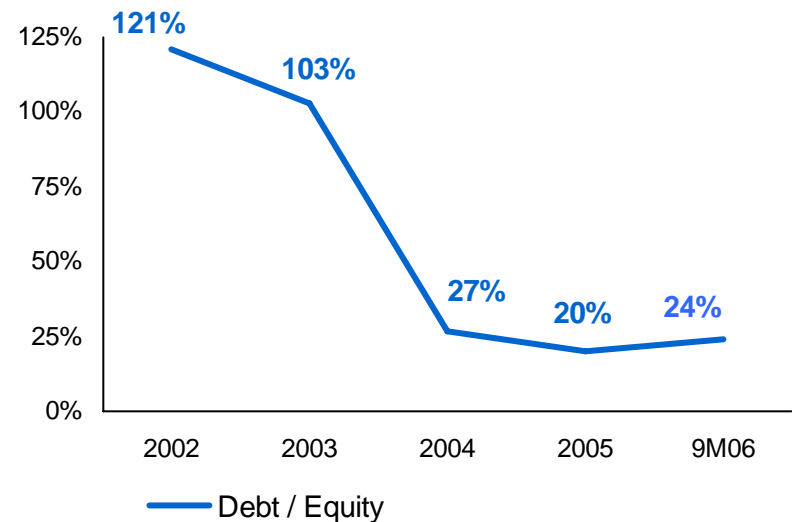
## Operating cashflow



## 9M 2006 Cash Flow



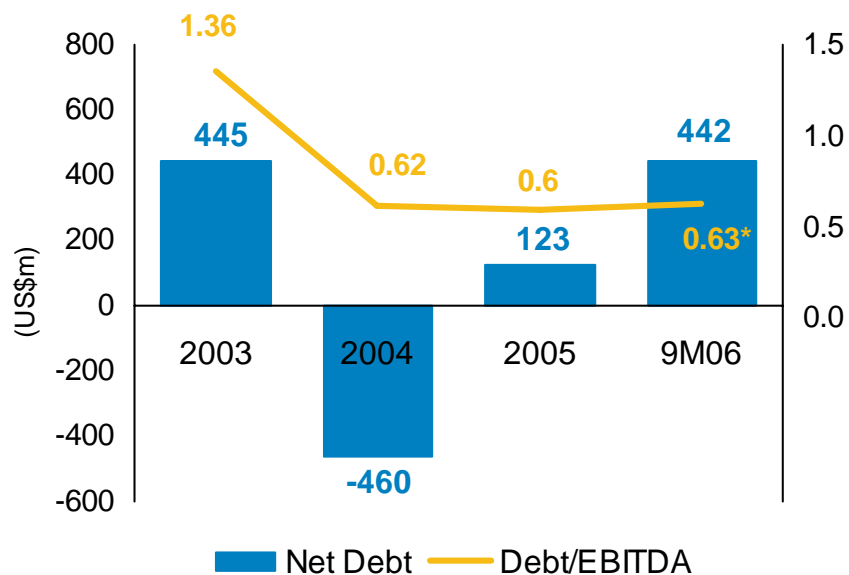
## Debt / equity



# Solid financial position

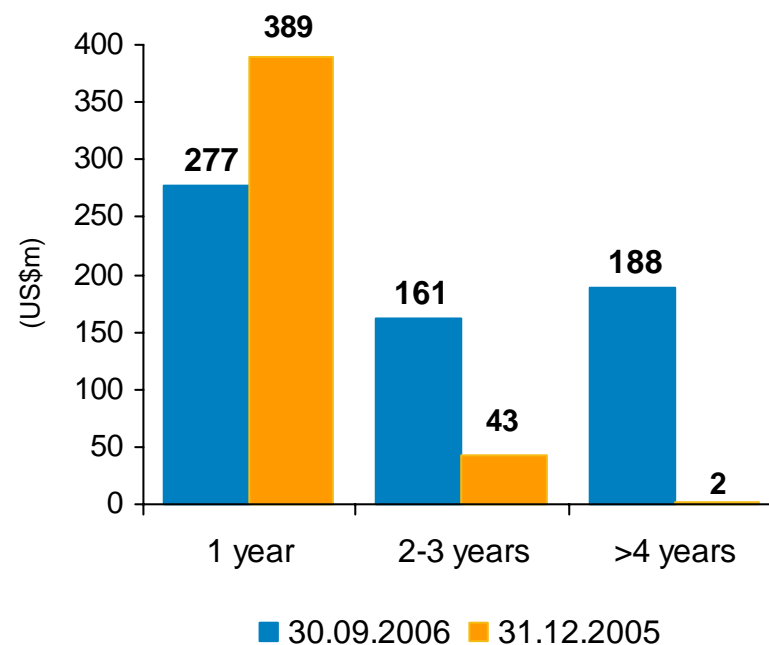
- ◆ Share of Unsecured Debt increased to 61% at 30.09.06 versus 52% at 31.12.05
- ◆ Considerable improvement in maturity profile
- ◆ Debt/EBITDA ratio is considerable well below the target of 2.0

### Debt to EBITDA ratio



\* Calculated on annualized EBITDA assumption

### Maturity Profile



# Disciplined approach to spending

- ◆ Key focus on efficiency improvement in steel segment and expansion of main facilities in mining segment
- ◆ Implementation of major projects on track
- ◆ Capital spending of \$344 million in 9M06 versus \$395 million in 9M05

Project	Status
<b>Olzherasskaya Mine</b>	<b>Completed in 3Q 2006</b>
<b>Sinter Plant # 2 (2<sup>nd</sup> line) at Chelyabinsk Metallurgical Plant</b>	<b>Completed in 3Q 2006</b>
<b>Coke battery at Chelyabinsk Metallurgical Plant</b>	<b>To be completed in 4Q 2006</b>
<b>Sibirginsk mine (second extension)</b>	<b>Construction to begin in 4Q 2006</b>
<b>Rebar Rolling mill # 300-2</b>	<b>To be commissioned in December 2006</b>
<b>Concaster at Mechel Targoviste</b>	<b>To be completed in the 1<sup>st</sup> half 2007</b>
<b>Expansion of Sibirginsk Open Pit Mine</b>	<b>On-going</b>
<b>Development of Erunakovskaya – 1</b>	<b>On-going</b>

# 9M 2006 Results Overview

\$ million unless otherwise stated	9M 2006	9M 2005	Change, %
<b>Revenue</b>	<b>3,142</b>	<b>2,910</b>	<b>8%</b>
<b>Cost of revenue</b>	<b>(2,069)</b>	<b>(1,852)</b>	<b>12%</b>
<b>Operating income</b>	<b>483</b>	<b>452</b>	<b>7%</b>
<b>EBITDA</b>	<b>669</b>	<b>569</b>	<b>17%</b>
<b><i>EBITDA margin</i></b>	<b>21.3%</b>	<b>19.6%</b>	
<b>Net Income</b>	<b>372</b>	<b>315</b>	<b>18%</b>
<b><i>Net Income margin</i></b>	<b>11.8%</b>	<b>10.8%</b>	
<b>EPS (USD per share)</b>	<b>0.92</b>	<b>0.78</b>	<b>18%</b>
<b>Sales volumes, '000 tonnes</b>			
<b>Mining segment</b>	<b>12,612</b>	<b>10,230</b>	<b>23%</b>
<b>Steel segment</b>	<b>3,976</b>	<b>3,656</b>	<b>8.8%</b>



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