In English:

Mechel Conference Call Management Speeches, 18.12.2008,
Mechel 1H and 9M 2008 results

Mechel OAO CEO Mr. Igor Zyuzin

Good day and good morning ladies and gentleman and thank you for joining us on our conference call to discuss Mechel's 2008 first half and nine months operational and financial results. I will begin with an overview of our operations and the current market situation, and then I will pass the call to our Senior Vice President Vladimir Polin, who will discuss the Company's recent achievements and plans looking ahead through 2009. Then our CFO, Stanislav Ploschenko, will report our financial results.

First, I would like to highlight that in the second and third quarters of 2008 we continued with our strategy aimed at increasing output in the mining segment, improving efficiency in the steel segment by upgrading production and lowering costs, expanding and improving the product portfolio as well as acquiring new promising assets.

Mechel announced several important changes that should enhance our ability to manage different business segment with greater flexibility.

To ensure focused management of our mining assets and to optimize their production, this spring we created Mechel-Mining OAO that comprises all mining assets of Mechel holding. This was a milestone in a new era in Mechel's development – a program of gathering narrow production assets into specialized sub-holdings. By doing so, we allow these businesses to better optimize their own operations while continuing to be devoted to a consolidated strategy and maintaining concept of intersegment integration and the generation of operational synergies across the business segments. It's important to point out that our intention is that, Mechel OAO will remain a controlling shareholder of these sub-holdings.

After the acquisition of Oriel Resources in April 2008, our existing production of ferro-nickel and ferro-silicon was combined with Oriel's production of ferro-chrome and chromite ores. This combination enabled us to adjust the strategy of ferroalloy production for the overall group and create a separate business segment consisting only of ferroalloy assets .

In the second and third quarters we also continued to implement key investment projects such as:

Construction of the spur-track to the Elga coal deposit. Commissioning of this coal deposit will significantly strengthen Mechel's position as one of the leaders of the world's coal industry. In June we laid down the first "silver" link of the Elga railroad. Today, we have approximately 220 kilometers of automobile by-road. More than 2.5 thousand employees are engaged today in this construction.

In November 2008, we signed a commercial contract with Russian Railways, securing sales of high quality rails of up to 100 meters in length through 2030. The agreement is in line with the long-term partnership agreement signed between Mechel and Russian Railways in April 2008.

The universal rolling mill, which will be constructed at Chelyabinsk Metallurgical Plant to meet these obligations, will also produce different types of high margin shapes for the construction market, allowing us to strengthen our high value-added product mix while lowering the costs of production.

To build this mill we have signed contracts with Danieli to supply equipment, and China Minmetals to build and commission the mill.

I would like to emphasize that the projects I just mentioned are of high priority for the company and we will do our best in order to implement them despite today's difficult market environment.

Of course, we understand that investors and shareholders of Mechel are very interested in the current situation and prospects of Mechel's development given the current economic crisis. My colleagues will discuss these items in more detail, but I would like to highlight a couple of key points.

First of all, we expect the fourth quarter of 2008 and 2009 as a whole to be challenging for all players in the market. We anticipate a slowdown in main industries in Russia as well as abroad. Although we believe Russia, in general, still has some competitive advantages such as a sufficient raw material base, low production costs, etc.

However, in the current challenging global economic situation, Mechel's has the advantage of being a diversified company made up of a number of large enterprises, each offering a wide line of high value added products.

For example, one of Mechel's advantages that has not been fully recognized by the market is our small-scale wholesale and service company, Mechel-Service. With its own broad sales network and ability to sell products directly to end-consumers, Mechel-Service can sell wire rod and constructional hardware with minimum volume pressure.

To further increase Mechel-Service's geographic presence, we recently acquired HBL, a German service and retail company. Together with new bases of Mechel-Service in Russia, Kazakhstan and Eastern Europe, this acquisition brings Mechel-Service's total distribution network to 65 bases and warehouses.

Overall we believe we have approached the current global economic crisis properly prepared and with broad opportunities to sell our steel products directly to our end customers.

It is important to note that we are seeing stable demand for steam coal. In conditions of temporary declines in coking coal demand we have managed to redirect part of our assets to increase production of steam coal grades which provides high sales volumes for the mining segment.

Such flexibility and diversification today allows us to continue our operations without shutting down any of our plants. Although in some cases we will witness a certain decline in production output. We also expect that we will not have to lay off workers given the salaries optimization and reduction of working hours. This in turn will allow us to preserve our market positions and be prepared for a rapid recovery when demand growth returns to normal levels.

We hope that in 2009 the company will continue its M&A activity, partially offsetting negative consequences of the world economic crisis.

On the whole we can say that we have laid down a strong base for achieving solid results overall for this year and for the future.

Summing up the period that we are reporting today we can say that as a result of our work Mechel once again demonstrated good financial performance. For the first nine months of 2008 we achieved revenues of approximately $8.6 billion, EBITDA of $2.7 billion or 33% margin and net income of $1.6 billion or 19% margin.

And now I will pass the call to our Senior Vice President Vladimir Polin, who is responsible for coordinating the management companies of our group and who will talk in more detail about the operational activities of the company in the reported period.

Thank you for your attention.

Mechel OAO Senior Vice President Vladimir Polin

Good day and good morning, ladies and gentlemen.

I would like to highlight again that financial results achieved by Mechel in 9M 2008 are the best in our history.

The record performance of the mining segment was in large part due to the acquisition of Yakutugol coal company at the end of 2007. Compared with 9 months of 2007 the coal output grew 54% with most of the increase resulting from a 95% increase in coking coal output.

Also, performance in the mining segment was positively affected by an increase in capacity of Port Posiet. Due to measures to optimize its terminals, we managed to increase Posiet's throughput to 3.5 million tones of coal per year. This step is significant, as it provides us with additional flexibility in redirecting part of our sales to export markets in Asia Pacific Region.

Our performance also benefitted from a strong pricing environment for coal throughout much of the year to date, as demand on a global basis outstripped supply. As a result, coal prices grew throughout the first half of 2008. And while today coal pricing is at levels that are half of their peaks earlier in the year as a result of the global financial crisis, we still consider this segment to be very promising and will work on improving our coal grade mixture, as well as the quality and volumes of coking coal produced.

Also, while coking coal prices decline 40-50%, we have the ability to flexibly adjust our production to increase the proportion of steam coal mined, as this product is still seeing stable demand due to its unique low sulfur content. This allows us to adapt to the recent slowdown of the world steel industry, and the related decline in demand and pricing for coking coal.

During the 9 months of 2008 we established a good export channel for our iron ore concentrate to Northern China, allowing Korshunov Iron Ore Plant to earn significant margins and also securing its production volumes despite the current turbulent marketplace.

The financial results of our steel segment were mainly driven by the growth in world steel prices, which stayed ahead of rising prices for raw materials, as well as the benefits of actions we have taken to shift our sales mix to higher value added products, reduce operating costs, and sell product directly to our end customers. Modernization of our assets and increasing our sales of high value-added products are still among our key priorities for the further development of this segment. We expect significant benefits from the construction of universal rolling mill at our Chelyabinsk Metallurgical Plant, which will have an annual production capacity of 1.1 million tones and will produce high quality rails up to 100 meters in length and shapes for the construction industry with total capacity up to 1.1 million tonnes.

Also, as was mentioned today, the development of Mechel-Service allowed us to significantly increase our client base and secure stable sales of finished steel products even later in the period, when we began to see large declines in demand both in Russia and abroad. Together with well balanced system of billet, rebar, hardware and constructional steel export sales, this provides us with some confidence that we can minimize the decline in output in our steel segment in the fourth quarter of 2008 and beginning of 2009 – we expect it not to go beyond 20-25%.

Also, while we expect overall slowdown on the Russian construction market of 10-20% in 2009, Mechel-Service's sales structure will provide us with opportunities to increase our share on this market, for example from 15% to 20% in rebar.

While the markets for steel products have been soft, we have also seen that in November and December of 2008 there has been a significant reduction in steel product stocks in Russia, Europe and Middle East. This gives us hope for some near-term market recovery. We expect that soon in 2009 we will witness some improvements in prices of steel products.

With the acquisition of Oriel company we have significantly increased our product mix in ferroalloys. Apart from ferronickel and ferrosilicon, we plan to reach yearly volumes of 790 and 180 thousand tonnes of chromites ore concentrate and ferrochrome, respectively. In the longer term, we will increase chromites ore concentrate output to 900 thousand tonnes. Thus Mechel has not only become the first producer of stainless grades of steel with own sources of major ferroalloys, but also enhance the overall product mix sold to third parties.

Even today we see stable demand for ferrosilicon, which together with the competitive advantage of inexpensive electricity at our production sites, provides our ferroalloys segment with additional stability in the current challenging marketplace.

At the same time, due to the large decline in nickel prices, we are forced to reconsider the development program of Southern Urals Nickel Plant, and are considering steps to significantly reduce its output in response to current market conditions.

Volumes of electricity generation in first 9 months of 2008 are significantly higher than in 2007, primarily due to the acquisition of Southern Kuzbass Power Plant. Though 2007 we have made a number of other important acquisitions in the power segment and this year focused on enhancing its operational performance and enhancing its management, consolidating it under Mechel-Energo.

Of course, our power segment still has a long way to go in its development, but we believe in it's future, especially since the electricity market in Russia is still planned for full liberalization.

As for Mechel's CAPEX program, naturally we have started revising it in light of current global economic conditions. As was said before, we are still focused on commissioning the biggest and most important projects on time – namely construction of a railroad to Elga deposit and universal rolling mill at CMP.

Other projects may be frozen or pushed out, and we are working on a revised capex strategy that we will disclose to the market next year. But even today due to optimization of our CAPEX program we have worked to reduce our maintenance CAPEX needs for 2009 to $150 million.

Mechel has also developed a program to optimize its operations in the current environment. Considering the fact that our percentage of fixed costs is 18% for steel, 24% for ferroalloys and 54% in mining, we still have room for reductions in certain expense areas. For example, we have managed to reduce general and administrative expenses and warehouse stockpiles, and to improve usage ratios and cash flows. By reducing working hours we managed to lower our salary base, while being able not to fire any personnel from production sites and offices to date. The savings on this measure alone has resulted in $30 million in cost savings.

We have conducted a number of negotiations with major suppliers of raw materials and resources, reducing average prices for goods already bought and future-contracted by important amounts.

By freezing the CAPEX program during its revision until 10.10.2009, we have reduced cash outlays in 4Q 2008 by about $160 million. Also we have temporarily shut down 1 Blast Furnance at CMP, Marten steel operations at Izhstal and a number of furnaces at Southern Urals Nickel Plant as well as some other machinery.

And now I turn the floor over to our CFO Stanislav Ploschenko, who will talk more about our financial performance.

Mechel OAO CFO Mr. Stanislav Ploschenko

Good afternoon ladies and gentlemen.

Let me begin by briefly commenting on the change in our typical process for this reporting period. We have traditionally reported the 1st half figures in early October. This year we took additional time needed to consolidate Ductil Steel and Oriel Resources, two new important acquisitions, which took place in the 2nd quarter.

In addition, the consolidation of Oriel's ferrochrome assets completed the formation of our ferroalloy business and we decided to report it as a separate segment moving forward. Thus the accounts for three business segments – mining, ferroalloy and power will exclusively relate to the businesses consolidated under the recently formed Mechel-Mining, Mechel-Ferroalloys and Mechel-Energo operations, while the steel segment will continue to reflect the steel operations of our group. We believe that by structuring our business in this way will add more transparency to our business model and will help us to better value our businesses. Thus, today we are presenting you with both 6 and 9 month figures and a different view on the Company and its operations.

Slide 1 – Solid Financial Performance

Talking about the financial results I would like to say that despite the fact that we are holding this call in very challenging times, we are still proud to be reporting very positive results of the group's 1st half and first nine months of the year 2008.

For the 1st half of 2008 we reported record consolidated revenue of over 5.3 billion dollars, a 79% increase compared with the same period in 2007. The 3rd quarter of 2008 added another 3.2 bln dollars to the top line. 1.5 bln dollars was contributed to the 9 month results by the acquisitions completed in the 2nd half of 2007 and during 2008. Ductil steel and Oriel Resources, acquired in the 2nd quarter of 2008 contributed 244 mln dollars or 6% to the revenue increase, Yakutugol added nearly 1,3 bln dollars. Our performance in the 1st half of the year also reflected a combination of both increasing sales volumes and record price growth. Although market conditions began to soften in the 3rd quarter (especially in steel products) it did not change the general positive picture for the 9 months of 2008. Overall the pricing factor contributed 2,205 million dollars excluding the contributions of new acquisitions.

Operating profit for the 1H2008 grew 117% to 1.6 bln dollars, showing an operating margin of 30%. This was taken further in the 3rd quarter, which added another 1.2 bln dollars to operating profit with a record quarterly operating margin of 37.2% thus increasing the operating margin for the 9 months to 32.7%. Apart from the higher gross margin in the 3rd quarter, SG&A expenses fell to 10% of revenue primarily due to the 16% reduction in selling and distribution expenses expenses and 56% reduction in non-profit taxes quarter over quarter, which was mainly a result of the 34.0 mln dollars antimonopoly charge accounted for in the 2nd quarter of 2008. At the same time we built upon the consolidated EBITDA of 853 mln dollars for the first quarter of 2008 with an additional 1,027 bln dollars in the 2nd quarter and another 984 mln dollars in the 3rd quarter, taking the consolidated EBITDA for the 9m2008 to almost 2,9 bln dollars with a strong margin of 33.4%.

Net profit for the 9m2008 also reached a record level of 1,637 mln dollars, which represents growth of 132% over the same period last year. The net profit margin for the period increased to 19% vs. 15.2% for the 9m2007. Our strong performance was also reflected in a ROE of over 50%.

Slide 2 – Steel Segment Sales

Steel segment revenue from external customers reached 3 bln dollars in the first 6 months of 2008. Steel segment revenue from external customers exceeded 4,8 bln dollars in the 9 month period, or 56% of consolidated net revenue, which is an increase of 55% over the 9 month period of 2007. The gross margin in the segment rose to a record 33.5% in the 9m2008. In 2008 we continued to maintain our commitment to the Russian market, which represented approximately 60% of steel segment sales for the 9m2008. At the same time, the acquisition of Ductil steel increased our presence and market share in Eastern Europe and Romania in particular. We believe that expansion of Mechel Service in Europe as well as the recent addition of HBL metal trader, with 8 service centers in Germany, will help to build our strong foothold in regional production into superior strength in the European steel market. Overall sales split in the steel segment between our foreign and domestic markets, which include Russia, Romania and Lithuania, increased slightly to 75% in the 9m2008 from 71% in the 9m2007. Steel prices showed superior growth in the 9m2008: coke sales prices on FCA basis increased by 117%, rebar by 50%, wire by 53%, stampings and forgings by 16%. Overall the pricing effects contributed almost 1,5 billion dollars to steel segment revenue, which increased 1.5 times in the 9m2008 compared to the same period in the prior year. We also continued to see a shift in sales mix to include less semi-finished products, which generally have lower margins relative to other products, as our investment program continues to have a positive impact. For example, sales of billet tonnage fell by 37% and wire rod by 2%, whereas volumes of rebar sold to 3rd parties increased by 27%, hardware by 12%, construction steel by 12% and stainless flat products by 11%. As a result, EBITDA per tonne of steel increased almost to 239 dollars. This is a direct result of the segment's modernization capex program we have been committed to and which is clearly paying off, especially in the current environment of suppressed margins. If the sales results of Ductil Steel are removed, sales volumes of rebar and hardware would still show increases of 19% and 3%, respectively, over the same period of 2007. Thus we can say that our threefold strategy for the steel segment of increasing competitiveness of our existing operations, strengthening of our presence in key geographical markets and the development of our own sales network has created a strong and resilient platform, which will help us to steer successfully through these uneasy markets.

Slide 3 – Mining Segment Sales

The mining segment reported strong performance due to a combination of the strong market pricing , the addition of Yakutugol with its high quality coking coal sales and a relative increase of coking coal output at our existing operations at the time when that market was at its best. Revenue from sales to the 3rd parties in the mining segment rose more than 3 times to over 2,8 bln dollars or 33% of the consolidated revenue in the 9 month of 2008, with the 3rd quarter contributing 1.12 bln dollars. The gross margin averaged 67.8% in the 9m2008 period vs. 46.7% in the 9 months of 2007. 3rd party sales of coking coal increased by 74% tonnage wise, and steam coal by 20%. The acquisition of a 49% stake in Toplofikatsia Rousse in December 2007 secured additional demand for our steam coal, sales to this power station represented 12% of our 3rd party sales of steam coal in the 1st half of 2008 and 8% in the 9m2008. The time tested Chinese market for iron ore enabled us to increase sales of concentrate to the 3rd parties, which grew 57% tonnage wise in the 9 months of 2008, with 71% of sales to the 3rd parties for 9m 2008 representing sales to China. Overall, the 52% growth in iron ore concentrate pricing during that period lead to a 117 mln dollars increase in 3rd party sales. At the same time sales of coking and steam coal increased by 967 mln dollars and 303 mln dollars respectively on an average price growth of 24% for coking coal and 23% for steam coal in the 9 months 2008. The beginning of the new Japanese financial year in April signaled a price fixing for the seaborne coal market at a completely new level, with most of the contracts expiring through March 2009, which ensures stable off-take in today's uneasy market. At the same time with the beginning of winter in Russia we are seeing increasing demand for steam coal in the domestic market, which offsets the pressure on the coking coal market to certain extent. With our ability to shift the production from coking to steam coal in open pit facilities, we have been able to react quickly to the fast changing circumstances in the market.

Slide 4 – Ferroalloys Segment Sales

Prior to acquisition of Oriel Resources our ferroalloy assets – South Urals Nickel Plant and Bratsk Ferroalloy Plant were accounted for in the mining segment and steel segment accordingly. As mentioned, we will now report ferroalloys as its own segment. The acquisition of Oriel not only made Mechel the only stainless steel producer in the world vertically integrated in both nickel and chrome processing and deposit base, it also made us an important ferroalloy producer in Russia. The segment is well positioned to develop our ferroalloy assets on a standalone basis as a full-fledged business, as well as to benefit from cross synergies with other segments of our group.

The addition of Oriel resources accounted for 63 million dollars of the revenue increase in the first 9 months of 2008. This revenue came from Tikhvin ferroalloy smelter, which was launched in 2007 and in the absence of own chrome concentrate has been operating on imported ore. However, after the launch of Voskhod chromite mine in September 2008 and the full ramp-up in the 1st quarter of 2009, Tikhvin will switch to internal group supplies and the revenue from 3rd party sales of chrome concentrate will be added to the top line. The acquisition of Bratsk ferroalloy plant in August 2007, one of Russia's few producers of ferrosilicon, added another 68 million dollars to revenue for the 9 month period. Overall the ferroalloy segment contributed 402 mln dollars or 5% to the consolidated revenue for the 9 months of 2008.

It is important to note that the diversification across ferroalloys apart from offering an opportunity to benefit from operational and marketing synergies also ensures relative stability in revenues and profitability for the going concern. While nickel prices fell 39% in the 9 months 2008, prices for ferrosilicon were rising. The significant decrease in nickel prices was also partly offset by the increase in production by 6% in the 9 months 2008. We are also witnessing different dynamics in ferroalloy prices even in today's challenging environment, where general downward trend on the markets prevails.

Slide 5 – Diversified Revenues and EBITDA

Looking at the relative performance of the different segments of our business we can clearly see the benefits of the business model built around diversification into different industries, which are bound by a high degree of integration on the one hand and offer exposure to different markets on the other. Let's examine them one by one briefly.

The main contributors to the consolidated results continue to be the mining and steel businesses. The mining segment was by far the best performer in the reported periods. Operating income in the mining segment in the 1H2008 reached 917 mln dollars with another 643 mln dollars added in the 3rd quarter, bringing the operating margin for the 9 months period of 2008 to 46% and the EBITDA margin to almost 50% vs 31% for the same period last year. The EBITDA itself grew more than 4 times in the 9 months of 2008 to almost 1.7 bln dollars compared to the same period last year. That explains the record high Net Income of over 1 bln dollars with a net margin of over 30%. Overall, the Mining segment contributed approximately 60% to both consolidated EBITDA and net income in the 9m2008. Yakutugol alone generated almost 770 mln dollars of EBITDA and 456 mln dollars of net income for the mining segment, which illustrates a complete turn-around of the previously loss-making operations prior to the acquisition in October last year.

The steel segment posted an operating profit of almost 600 mln dollars in the 1H2008 topped up with another 535 mln dollars only in the 3rd quarter, which was the result of higher gross profit and significant reduction in administrative and selling&distribution expenses. The operating margin of the steel segment for 9m2008 reached 22.6% vs. only 14.9% for the same period last year. These results were reflected in EBITDA, which almost doubled to over 1,1 bln dollars for the 9 months 2008 period on margin of 22.6%. The acquisition of Ductil Steel added 181 mln dollars to revenue and 45 mln dollars to EBITDA of the steel segment in the 9m of 2008. Overall, the steel segment added 40% to consolidated EBITDA and net profit in the 9 m2008.

In the power segment profitability increased when compared to the 9 months of 2007 due to sales volumes that more than doubled and exceeded half a billion dollars. The segment's Operating and EBITDA margins went up from 0.28% and 3.67% in the 9m2007 period to 2.45% and almost 5% respectively in the same period in 2008. However, the future growth driver of this business lies beyond the year 2009, when most of the electricity market liberalization is to become effective. Nevertheless, it is important to understand that through its exposure to the electricity market the energy segment offers the entire group an almost a 50% hedge against rising electricity prices, which is becoming vitally important in a weaker pricing environment in which the cost side of the manufacturing equation gains even more importance.

The ferroalloy segment demonstrated an operating margin of 14.2% and EBITDA margin of 14.4% for the 1st nine months of 2008, affected first of all by sharply rising coke prices, which weighed on the cost side, as well the fall in nickel pricing. At the same time the margin was suppressed by the fact that Oriel was not producing at full scale as the Voskhod mine was launched only at the end of the third quarter and will take some time to ramp up its production. The results for the segment were also affected by 53 mln dollars of interest expenses, the major part falling on the 1.5 bln dollars bridge facility raised to finance the acquisition of Oriel. However, the diversification into ferroalloys has already proven its benefits at the time of record high nickel prices, which we witnessed in 2007 and sustained ferrosilicon prices even in today's market. Even more important is the integration of our specialty and stainless steel production into the most important raw materials uniquely complemented with our own deposit base for all of them.

Slide 6 – Favourable Cost Structure

Despite sharply rising raw materials pricesss across the industry, we have managed not only to keep cost increases under control, but also bring costs down in certain areas. Uniquely, during the period of sharp growth in coal prices we managed to almost halve cash costs of coking concentrate production at Yakutugol from 48 dollars per tonne upon the acquisition to 27 dollars average in the 9 months 2008. That was well below the average cost of 39 dollars at Southern Kuzbass for the same period. The cash cost of a tonne of steam coal averaged 19 dollars at Southern Kuzbass and 23 dollars at Yakutugol for the same period, increasing only slightly over the previous period. The cash cost per tonne of iron ore concentrate rose to 29 dollars. The main drivers for the cost increases in the mining segment were an increase in fuel prices on the back of strong oil price dynamics as well as increased service and maintenance costs at the Southern Kuzbass mining operations. The staff costs were held under control and remained relatively constant during the period.

Rising raw materials costs also drove costs in the steel segment higher: average billet cash cost at Chelyabinsk Metallurgical Plant reached 550 dollars with rebar and wire rod showing comparable figures. However, that increase in cost should also be looked at as a translation of a higher margin in the mining segment. Similarly, the 117% growth in coke price in the 9m 2008 vs 9m 2007 accounted for the bulk of the sharp increase in the cash cost of ferronickel, which rose to 20 000 dollars per tonne. It should be noted though that coke is supplied to our nickel operations by our steel segment at market prices and that margin is consolidated within the steel segment. With oil and other raw material prices going down we could expect cash cost in both the steel and ferroalloy segments to also decline.

Slide 7 – Increasing cash generation capacity

These results translated into an outstanding operating cash flow of 1.9 bln dollars in the 9 months of 2008, with 980 mln dollars contributed only in the 3rd quarter. The operating cash flow for the 9 months of 2008 represented 22% of the revenue for that period. As you can see on the chart this cash flow was primarily driven by the net result. It is also rewarding to see that the increase in working capital was kept under control despite expanding sales and a sharp increase in input prices.

This cash flow was spent largely to finance acquisitions and our modernization program in 2008 as well as to reduce our short-term debt. If the 1.5 bln dollars bridge facility raised to finance the acquisition of Oriel Resources is put aside, the short-term debt was reduced by some 263 mln dollars out of operating cash flow in the first 9 months. Over the 2008 9 month period we generated over 957 mln dollars of free cash flow, which helped to finance the acquisition of fixed assets of over 950 mln dollars within the scope of the modernization program.

Slide 8 – Post Acquisition Debt Metrics Recovery

The strong financial results and healthy cash flow for the first 9 months ensured that despite significant debt-raising to finance acquisitions in the last 12 months we faced the current markets with healthy balance sheet and strong debt-service capacity. As you can see our key indicators of Net Debt to EBITDA and Interest coverage remain well within the parameters set by our financial policy. Despite raising 1.7 bln dollars worth of net debt in the first 9 months of 2008 the Net debt to EBITDA ratio actually decreased from 1.9 in 2007 to 1.3 in the 9m 2008. At the same time the interest coverage by EBITDA remains in the 3rd quarter 2008 at above 12 times – well above the target level of 4 times. The Free Flow from operations to Net debt ratio also improved and remains at a comfortable level.

It has always been our policy to stick to a sound financing strategy with emphasis on balanced structure of the loan portfolio with respect to maturity. In today's challenging environment we are benefitting from this approach. Today, when bank financing is becoming more and more scarce we achieved that virtually all of our investment projects are financed with long-term facilities, and most of them are supported by export credit agencies of the supplier countries, such as Germany and Italy. This support ensures that we will be able to finance our capex program at a time when we would have had to abandon these projects had we not used this approach.

It has also been our policy to ensure more than sufficient working capital financing than needed at the time. In the circumstances when working capital has rapidly expanded, markets shrunk and payment discipline has deteriorated this approach has proved to be the right one. Supported by our long lasting strong relationship with our partners such as VTB Bank, Gazprombank, Sberbank and Alfa-bank we expect to have sufficient working capital to finance our activities in 2008 and 2009.

Slide 9 – Debt profile

In order to illustrate this we would like to refer you to the following slide, which shows our debt maturity in the next 3 quarters and on an annual basis. Apart from the need to refinance the Oriel bridge we do not have significant amounts to repay which are not covered by our existing working capital in the next several quarters. Moreover, in the 3rd and 4th quarters of this year we successfully repaid the 375 mln dollars bridge facility arranged in August 2007 and started repayment of the 2bln dollars syndicated pre-export facility raised to finance the acquisition of Yakutugol, of which around 1.9 bln dollars is left today.

The Oriel bridge matures in the end of March 2009 and we are currently negotiating its refinancing with a number of Russian and international banks with the aim to reach a solution early in the 1st quarter of 2009.

Slide 8 – Financial Results Overview

To recap the 1st 9 months of 2008 indeed were the best in our company's history in both absolute and relative numbers. And this is even more important if we look into the year 2009. We believe the strategy of cost cutting and improving margins through asset modernization and deeper integration of our businesses ensures stable operations in any market circumstances. The strategy of diversification of our product range and sales markets, the strategy of marketing and selling our products ourselves to final customers through own retail chain has proven to be a correct one in the present challenging environment. We believe that this strategy, which has ensured strong cash generation and solid financial position in the 1st nine months of 2008 has allowed us to create a significant cushion, which is important to have in order to steer through the current uneasy environment and challenging markets successfully.

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

In Russian:

Текст выступления на конференц-звонке по итогам 6 и 9 месяцев 2008 г. 18 декабря 2008 г.

Генеральный директор ОАО «Мечел»
И.В. Зюзин

Добрый день и доброе утро, дамы и господа. Мы рады вас приветствовать на конференц-звонке по результатам деятельности компании за 1-е полугодие и 9 месяцев 2008 года. Я начну сегодняшнюю презентацию с общего обзора проделанной нами работы и текущей ситуации, а затем передам слово Старшему вице-президенту Владимиру Полину, который подробнее расскажет о последних достижениях и планах компании. Позже вице-президент по финансам Станислав Площенко осветит финансовые результаты.

Прежде всего, хотелось бы отметить, что во втором и третьем кварталах 2008 года компания продолжила реализацию стратегии, направленной на расширение горнодобывающего сегмента, повышение эффективности металлургического сегмента за счет модернизации производства, сокращения издержек, оптимизации продуктовой линейки и приобретения новых перспективных активов.

Существенные изменения произошли в структуре управления активами компании, которые должных обеспечить более гибкое и качественное управление различными направлениями деятельности «Мечела».

Так, для обеспечения управления нашими горнодобывающими активами и оптимизации их деятельности, весной этого года была создана холдинговая компания ОАО «Мечел-Майнинг»,объединяющая все горные активы группы с собственной управляющей компанией. Фактически, это ознаменовало собой новый этап развития «Мечела» - начало выделения узкоспециализированных субхолдингов, с одной стороны, самостоятельно управляющих своим бизнесом, с другой – остающихся приверженными единой стратегии «Мечела» и концепции его интеграции и достижения синергетического эффекта. При этом «Мечел» будет оставаться контролирующим акционером создаваемых субхолдингов.

После приобретения в апреле 2008 года компании «Ориэль», к имевшемусяв компании производству ферросплавов, таких как ферроникель и ферросилиций, добавились добыча хромовой руды, производство хромового концентрата и феррохрома. Это позволило нам пересмотреть стратегию развития ферросплавного производства в компании, выделив его в обособленный бизнес-сегмент с формированием единого ферросплавного субхолдинга на базе компании «Ориэль».

Также, в течение второго и третьего кварталов мы продолжили реализацию крупнейших и важнейших проектов компании, таких как:

1) Строительство железнодорожного подъездного пути к Эльгинскому угольному месторождению, ввод в эксплуатацию которого, позволит укрепить положение «Мечела» в качестве одного из лидеров мировой угледобывающей промышленности. Так, в июне было заложено первое «серебряное» звено нового участка железнодорожного полотна, в настоящий момент уже завершено строительство около 220 км. автомобильной притрассовой дороги, на строительстве работает более 2,5 тыс. человек.

2) В дополнение к подписанному в феврале 2008 года соглашению с ОАО «РЖД» о долгосрочном взаимовыгодном партнерстве по обеспечению железных дорог России высококачественными железнодорожными рельсами длиной до 100 метров, в ноябре с.г. был подписан контракт, предусматривающий реализацию нашей рельсовой продукции до 2030 года.

Универсальный рельсобалочный прокатный стан, который будет построен на Челябинском металлургическом комбинате в рамках этих соглашений, предусматривает также выпуск различных видов фасонного проката строительного назначения, что значительно расширит ассортимент выпускаемой продукции с высокой добавленной стоимостью и сократит издержки на ее производство.

Для реализации этого проекта мы заключили соглашения с фирмами «Даниэли» - на поставку оборудования и китайской «Минметаллз» - на строительство стана под ключ.

Должен отметить, что упомянутые два проекта мы считаем приоритетными для компании и приложим максимум усилий для их реализации несмотря на сложную экономическую ситуацию.

Разумеется, мы понимаем, что инвесторов и акционеров компании сегодня особенно интересует текущая ситуация и перспективы развития «Мечела» в условиях мирового экономического кризиса. Мои коллеги более подробно осветят эту тему, однако хотелось бы выделить несколько ключевых моментов.

Прежде всего, по нашему мнению, четвертый квартал 2008 года и 2009 год в целом будут непростыми для всех игроков на рынке. Мы ожидаем замедления развития основных отраслей как в России, так и за рубежом. Отрадно, что российские компании в целом имеют ряд конкурентных преимуществ, таких как самообеспеченность сырьем, низкую себестоимость продукции и т.п.

И именно в этой непростой ситуации особенно отчетливо проявились преимущества «Мечела» как диверсифицированной компании, объединяющей большую группу предприятий, имеющих высокий уровень передела продукции и широкую продуктовую линейку.

Так, например, позитивную роль, в настоящее время, сыграло до сих пор не слишком оцененное рынком наличие в нашей структуре мелкооптовой сбытовой и сервисной компании «Мечел-Сервис». Благодаря наличию собственной разветвленной сети и возможности продавать продукцию непосредственно конечному потребителю, мы имеем возможность осуществлять продажи продукции строительного сортамента такие, как арматура, катанка и различные метизы с минимальным сокращением.

С целью дальнейшего развития «Мечел-Сервиса» в зоне Евросоюза, нами был приобретена сервисно-сбытовая компания «HBL» в Германии, что наряду с открытием новых баз и площадок «Мечел-Сервиса» в России, Казахстане и Восточной Европе позволило довести их суммарное количество до 65.

Таким образом, мы подошли к кризису достаточно подготовленными и с широкими возможностями реализации производимой металлопродукции.

Также следует отметить сохраняющийся в настоящее время устойчивый спрос на энергетический уголь. В условиях временного падения спроса на коксующийся уголь, мы смогли перебросить часть ресурсов на увеличение производства энергетических марок угля, обеспечивая горному сегменту большие объемы реализации продукции.

Такая гибкость и диверсификация позволили нам сегодня не останавливать отдельные предприятия. Хотя в любом случае мы станем свидетелями определенного сокращения объемов производства. Также мы ожидаем, что нам не придется идти на увольнения персонала – при оптимизации базы оплаты труда за счет общего сокращения рабочего времени. Это в свою очередь позволит сохранить рыночные позиции компании и быстро оправиться от кризиса при восстановлении спроса на нашу продукцию.

Мы надеемся, что при благоприятном развитии событий в промышленности в 2009 году компания продолжит работу на рынке слияний и поглощений и сможет нейтрализовать негативные последствия мирового экономического кризиса.

В целом, есть основания полагать, что мы создали надежный задел для достижения компанией хороших результатов и в будущем.

Подытоживая отчетный период, можно сказать, что в результате нашей работы Мечел снова продемонстрировал хорошие финансовые результаты. Так, за 9 месяцев 2008 года выручка по компании составила порядка 8,6 миллиардов, EBITDA – 2,7 миллиардов или 33% от выручки, а чистая прибыль – более 1,6 миллиарда долларов США или 19% от выручки. Операционная прибыль также увеличилась как в абсолютном выражении, составив 2,8 миллиарда долларов США, так и в процентном – около 33% по сравнению с 23% в прошлом году.

А теперь я передаю слово Старшему вице-президенту Владимиру Полину, который осуществляет координацию работы управляющих компаний группы и подробнее расскажет о деятельности компании за отчетный период. Благодарю вас за внимание.

Старший вице-президент ОАО «Мечел»
В.А. Полин

Добрый день и добрый вечер, уважаемые дамы и господа.

Хотелось бы отметить, что финансовые результаты, достигнутые «Мечелом» за первые 9 месяцев 2008 г., являются лучшими в истории «Мечела».

Горнодобывающий сегмент показал рекордно высокие финансовые результаты в определенной степени благодаря приобретению в конце прошлого года «Якутугля». По сравнению с аналогичным периодом прошлого года добыча угля за 9 месяцев 2008 года выросла на 54%, при этом основной прирост пришелся на высококачественный коксующийся уголь – его производство увеличилось на 95%.

Положительно на итогах работы сегмента сказались успехи компании по наращиванию мощностей порта Посьет. Благодаря мерам по оптимизации работы терминала его пропускная способность достигла 3,5 миллионов тонн в годовом выражении, что сегодня особенно важно, поскольку дает нам дополнительную гибкость в переориентировании части товарных потоков на экспорт в страны Азиатско-Тихоокеанского региона.

Благоприятным образом складывалась и ценовая ситуация в отношении угольной продукции на фоне значительного дисбаланса спроса и предложения в мире. Рост цен на уголь продолжался на протяжении первого полугодия. И хотя сегодня мы видим практически двукратное падение цен, вызванное мировым финансовым кризисом, мы все равно считаем данное направление производства крайне перспективным и будем работать над оптимизацией марочного состава, качества и объемов производимого коксующегося угля.

Кроме того, на период спада в мировой металлургии и снижения цен на коксующиеся угли на 40-50% и падения спроса на них, мы имеем возможность гибкой переориентации производства на энергетические марки углей, пользующиеся стабильным спросом в мире в том числе и за счет уникально низкого содержания в них серы.

За 9 месяцев 2008 года нам удалось установить хороший канал сбыта нашего железорудного концентрата в Северный Китай, что принесло хорошую прибыль за указанный период, а также позволяет сохранить загрузку Коршуновского ГОК-а заказами и в сегодняшних непростых условиях.

Хорошие финансовые результаты металлургического сегмента были связаны во многом с достаточно интенсивным ростом цен на сталепродукцию на фоне дорожающего сырья для металлургического производства. Модернизация производственных активов и увеличение доли продукции с высокой добавленной стоимостью по-прежнему в числе основных приоритетов в развитии металлургического сегмента компании. Значительных результатов мы ожидаем от реализации проекта по строительству на Челябинском металлургическом комбинате (ЧМК) универсального рельсобалочного стана по производству высококачественных железнодорожных рельсов длиной до 100 метров и фасонного проката строительного назначения общим объемом до 1,1 миллиона тонн в год.

Кроме того, как уже было сказано, развитие «Мечел-Сервиса» позволило существенно расширить нашу клиентскую базу и обеспечить стабильность сбыта готовой металлопродукции даже в условиях сильного падения спроса на нее в России и за рубежом. Вместе с налаженной системой сбыта стальной заготовки, арматуры, метизов и конструкционной стали на экспортных рынках, это дает возможность говорить о минимальном сокращении объемов производства в конце 2008 и начале 2009 года, которое в общем по металлургическому сегменту не должно превысить 20-25%.

При этом, несмотря на общее снижение объемов строительства в России, которое мы ожидаем на уровне 10-20% в 2009 году, структура сбыта «Мечел-Сервиса» позволит нам даже увеличить долю металлопродукции «Мечела» на этом рынке – ориентировочно с 15 до 20% по арматуре.

Сегодня мы уже видим, что в ноябре-декабре произошло существенное снижение складских запасов металлопродукции в России, Европе и на Ближнем Востоке, что позволяет рассчитывать на определенное оздоровление рынка в целом.

С приобретением компании «Ориэль» мы существенно расширили линейку выпускаемых ферросплавов. Кроме производства ферроникеля и ферросилиция, мы планируем выйти на годовые объемы производства в 790 и 180 тысяч тонн концентратов хромитовых руд и феррохрома соответственно. А в дальнейшем есть планы увеличить производство концентрата и до 900 тонн. Таким образом «Мечел» не только стал первым производителем нержавеющих марок стали, имеющим собственные производства основных ферросплавов, но и получил возможность существенно расширить ассортимент продукции, предлагаемой третьим лицам.

При этом мы видим весьма стабильный спрос на ферросилиций даже сегодня, что в сочетании с конкурентным преимуществом в виде доступной на производстве дешевой электроэнергии дает ферросплавному сегменту дополнительную устойчивость на период кризиса.

В то же время существенное падение цен на ферроникель заставляет нас пересмотреть программу развития ЮУНК и мы прорабатываем возможность временно существенно снизить объемы его производства.

Объемы генерации электроэнергии за 9 месяцев этого года значительно превышают прошлогодний показатель, что объясняется вхождением в состав «Мечела» Южно-Кузбасской ГРЭС. В течение прошлого года мы сделали целый ряд приобретений на энергетическом направлении и с наступлением этого года предприняли шаги по совершенствованию структуры управления энергетическим активами, консолидировав все энергогенерирующие мощности в дочерней компании «Мечел-Энерго».

Конечно, энергетическому сегменту еще предстоит пройти значительный путь в своем развитии и модернизации, но мы верим в его будущее, особенно в свете сохраняющихся планов по полной либерализации рынка электроэнергии в России.

Что касается общей программы капитальных вложений «Мечела», то, разумеется, мы приступили к ее пересмотру в свете продолжающегося мирового кризиса. Как было сказано ранее, мы постараемся полностью и в срок реализовать крупнейшие проекты компании – прежде всего строительство железной дороги и разреза на Эльгинском месторождении, а также строительство универсального рельсобалочного стана.

Остальные проекты могут быть заморожены или пересмотрены. Новую программу капвложений мы обязательно опубликуем отдельно в следующем году.

При этом за счет проделанной работы нам удалось существенно снизить необходимые поддерживающие капвложения на 2009 год, которые составят всего $150 миллионов.

Также компания разработала план мероприятий по оптимизации производственно-экономической деятельности в условиях кризиса. С учетом того, что процентная составляющая постоянных затрат составляет 18% в металлургическом сегменте, 24% в ферросплавном сегменте и 54% в добывающем сегменте, у нас есть существенный запас по оптимизации. В частности, на каждом предприятии группы удалось добиться снижения общих и административных расходов, снижения уровня запасов на складах, оптимизации расходных коэффициентов, денежных потоков и т.п. За счет сокращения рабочего времени уменьшен и фонд оплаты труда, что в то же время позволило не увольнять сотрудников предприятий и административного аппарата. Экономия по фонду оплаты труда таким образом составила около $30 миллионов.

Мы провели переговоры с основными поставщиками сырья и ресурсов, что привело к определенному снижению закупочных цен на уже поставленную и контрактуемую на будущее продукцию.

За счет замораживания программы капвложений на период ее пересмотра до 10 января 2009 года удалось сэкономить в 4 квартале около $160 миллионов.

Временно был остановлен ряд технологических агрегатов, как, например, Доменная печь №1 ЧМК, мартен на «Ижстали» и часть печей на ЮУНК.