

CFO's speech (2009 FY FINANCIAL RESULTS)

Good afternoon ladies and gentlemen.

Slide 1

Introduction

Today we are reporting the results for the full year 2009 – a very difficult year, where we saw production and financial flows sharply contract in the 1st quarter and gradually recover starting from the end of the 2nd one. We also saw a noticeable divergence of the market trends and demand development in different product and geographical markets. All in all the year ended with a positive result for our group and we can proudly say that today Mechel has successfully gone through the financial crisis and returned to normal life. In reporting the result of 2009 we decided to alter the traditional format of presentation and discuss the segments first followed by the consolidated picture.

Slide 2 – Steel Sales: Structure and Prices

This time we will begin with the mining segment.

The performance of the out mining business in the 4th quarter reflected rising prices for all of its products, especially coking coal – more than 20% on the FCA basis, as both domestic and international seaborne markets continued to recover. Tonnage-wise volumes of sales remained flat over the 3rd quarter as seasonal constraints at Russian Far-Eastern ports in winter temporarily limited the ability to increase exports. Similar situation took place with steam coal, which was up 9% in price q-o-q on flat physical sales volumes. At the same time relocation of mining works to new seams with temporary mining of poorer ore bodies at Korshunov mining plant lead to a reduction in 3rd-party sales of iron ore concentrate in physical terms – by 22%, which was offset by 7% due to increase in intergroup shipments to the steel segment and further compensated by a 27% sales price increase on the FCA basis. As a result the revenue of the segment from 3rd parties in the 4th quarter went up 10% to 458 million dollars as compared to the 3rd one. The intersegment sales also grew by 56% as prices rose and production in other segments recovered. The gross profit increased by 9% to 241 million dollars or 43% of the revenue, which can be compared to 46% in the previous quarter. The slightly smaller gross margin can be explained by 23% increase in cost of sales. Most of that increase came from growth in cost of personnel – up 29%, power – up 47%, which was natural for the period of sharp ramp up of production – largely of coking coal - as the segment recovered from the period of depressed markets earlier in the year. That was reflected in the increased cash costs of production, which grew to 43 dollars a tonne of coking concentrate at Southern Kuzbass and 25 dollars at Yakutugol, 31 dollars a tonne of PCI concentrate at Southern Kuzbass and average 17 dollars a tonne of steam coal – virtually unchanged from the previous quarter. Cash cost at Bluestone also followed suit increasing to 90 dollars a tonne as we intensified repairs and usage of 3rd party transportation in order to meet our increased production targets. A 91% growth in mineral depletion to 29 million dollars and a 48% increase in depreciation to 55 million dollars in the 4th quarter largely also came from finalization of purchase price allocation for Bluestone, as we posted its independently estimated mineral reserves worth of 2.1 billion dollars to the balance sheet for the 1st time after the acquisition.

Sales and distribution expenses in the mining segment also grew by 37% to 125 million dollars as sales improved. The administrative expenses on the contrary fell by 77% to 11 million dollars largely due to a one-off decrease in provision for pension liability at one of our subsidiaries and social expenses. As a result the operating income of the segment in the 4th quarter was 25% up from the previous quarter result and posted 91 million dollars or more than 16% of the revenue vs 15% in the previous quarter. The interest expenses, excluding intersegment ones, decreased by 36% to 50 million dollars as average interest rate for the segment decreased due to improved lending terms as well as capitalization of the interest expenses on the long-term debt raised to finance the construction of the Elga project. The FX loss of 7 million dollars in the 4th quarter was substantially different from an 89 million dollars FX gain in the previous one.

In the 4th quarter the segment posted a positive effect of the revaluation of the contingent liability borne in connection with the terms of acquisition of Bluestone. The contingent payment we have to make in 5 year time from the acquisition date, which in our books is valued at a discounted value of 991 million dollars is dependent on the value of the preferred stock offered to the seller as consideration. The remaining payment is calculated as a difference between the value of the contingent value right – or CVR – which also diminishes with every dividend paid on the preferred stock, and the market or independently assessed value of the preferred stock. Due to a rise in stock markets since the date of acquisition till the reporting date the independently assessed value of the preferred stock decreased the value of the CVR by 494 million dollars, which was posted as other income item to the P&L and affected the EBITDA and Net Income to the greatest extent in the 4th quarter of 2009. We expect this item to influence the segment's reporting until the CVR expires or extinguishes should the preferred stock become publicly traded and the total of the market value of the stock held by the seller and dividends flow exceed the current value of the CVR.

Due to that non-cash item the segment posted EBITDA of 644 million dollars and Net income of 509 million dollars in the 4th quarter. With the CVR and FX effects stripped off, the segment's EBITDA in the 4th quarter would increase by 48% to 218 million dollars – or 39% of the revenue q-o-q. Net Income would increase to 83 million - or 15% of sales dollars from 7 million dollars loss in the 3rd quarter.

Overall for the year 2009 the mining segment generated 1.55 billion dollars of 3rd party revenue, 837 million dollars of gross profit, 226 million dollars of operating result, 1.1 billion dollars of EBITDA and 622 million dollars of Net Income. Bluestone added 157 million dollars to the segment's revenue in 2009, 489 million dollars to EBITDA and 449 million dollars to the net income.

Slide 3 – Mining Sales: Structure and Prices

Overall in the 4th quarter of 2009 the segment performed in line with the trends, which were largely unchanged comparing to the 3rd quarter with seasonal slowdown of construction in Russia in winter. Consequently rebar sales decreased as we began to restock for the new season. However, our product and market diversification allows us to react to such trends by changing product mix and geography of sales, which we did by increasing export of billet to the Middle and Far East thus keeping the physical volume of sales virtually unchanged from the 3rd quarter. The revenue increased by 6% to 983 million dollars q-o-q due to generally positive pricing environment as FCA prices for billet grew by 9%, wire by 4%, low alloyed engineering steel by 8%, coke by 53%, whereas prices for stampings decreased by 17%. The growing price for coke also stood behind the 36% increase in intergroup sales mostly to our ferroalloy business, which grew to 69 million dollars in the 4th quarter. Consequently, though exports of semis grew q-o-q, the share of Russian market where a higher value added product is sold increased in the 4th quarter to 59% of total sales.

It is notable that the rising prices of raw materials, such as coking coal and iron ore pushed the cash cost of steel production up in the 4th quarter. The cost of billet production increased by 20% to 331 dollar a tonne, the cost of rebar went up by 24% to 373 dollars a tonne. As a result, the gross margin decreased to 23% vs 25% in the 3rd quarter. The selling expenses also grew by 26% to 151 million dollars q-o-q in line with the increase in export sales. The 4th quarter operating profit of 37 million dollars was almost 46% lower than in the 3rd quarter with an operating margin of 3,5%. However, it is notable that in the 3rd quarter we had a positive effect of 45 million dollars resulting from the sale of stock that was previously written-down to market prices or net realizable value (a so-called NRV effect). The inventory write-down to market prices in the 4th quarter on the contrary had an 8 million dollars negative effect on our cost of sales. With that effect stripped from the cost of sales the gross margin in the 4th quarter would rise to 24% vs 21% in the previous one. The operating margin for the 4th quarter would stand at 4% vs 2% a quarter ago.

EBITDA and Net Income were also affected by the same factor as well as FX effect, which added 40 million dollars to EBITDA in the 3rd quarter but was negligible for the segment in the 4th one. Gross of these effects the EBITDA for the 4th quarter stood at 77 million dollars or 7,4% of sales vs 16% in the 3rd quarter, the 4th quarter also saw a Net Loss of 25 million dollars vs 46 million dollar of Net Income in the previous quarter. With both FX and NRV effect stripped of EBITDA and Net Income, the 4th quarter EBITDA margin would rise to 8% vs 7% in the previous quarter whereas the Net loss generated by the segment in both quarters would be comparable at 2% and 4% of sales respectively.

Overall for the year the steel segment generated 3,3 billion dollars revenue from sales to the 3rd parties, 628 million dollars gross profit - or 18% of sales, 54 million dollars of operating loss, the similar number – but with a positive sign – of EBITDA and 300 million dollars of Net Loss, where 80 million dollars loss is attributable to the FX effect.

Slide 4 – Ferroalloy Segment

The performance of the ferroalloy segment in the 4th quarter of 2009 was driven by a combination of different factors. The nickel sales were largely flat on flat prices as compared to the 3rd quarter and contributed more than a half of the revenue of the segment. The 25% decrease in physical volumes of chrome sales resulted from the fact that we rerouted certain volumes to China on CIF terms in the 4th quarter, which extended the time for revenue recognition. The volume decrease was compensated to certain extent by an 11% increase in sales prices on FCA basis. The 10% decrease in FeSi production resulted from a shift from 65 to a more export oriented 75 grade, as export prices grew. That was fully compensated by a 5% average sales price increase to 963 dollar per tonne. As a result, the segment sales in the 4th quarter remained flat. The sales to the 3rd parties decreased by almost 5% to 114 million dollars, the intersegment sales grew by 26% to 27 million dollars as the steel segment increased consumption of ferronickel and ferrochrome in the 4th quarter. The costs of sales grew by 7% largely due to the increase of coke prices for nickel production where cash cost increased by 11% to 15 thousand dollars a tonne. The cash cost of ferrosilicon production remained flat at 617 dollars a tonne, whereas the cash cost per tonne of chrome decreased by 9% to 1 248 dollars due to the decrease of chrome ore purchase prices.

As a result the gross profit decreased by 27% to 20 million dollars q-o-q or 15% of sales. Selling expenses grew 78% to almost 7 million dollars due to rouble appreciation and switch to CIF terms of delivery for ferrochrome. Administrative expenses increased more than twofold to 18 million dollars due to one-off non-cash write-offs of the obsolete oxygen furnace at South Urals Nickel

Plant and capitalized expenses for the hydrometallurgical technology at Kazakhnickel, acquired along with Oriel Resources in 2008 – both totaling 16 million dollars. That resulted in an 8 million dollar operating loss in the 4th quarter as opposed to an 11 million dollar profit in the previous period. EBITDA posted as negative 3 million dollar figure vs a 21 million dollar profit in the 3rd quarter. Similar to the steel segment, the positive effect from sales of stock previously written-down to market prices in the 4th quarter was only 3 million dollar vs 12 million a quarter before. If both the NRV effect and non cash write-offs are taken off, the operating profit for the 4th quarter would stand at 4 million dollars vs a 1 million dollar loss in the 3rd quarter of 2009 over a flat EBITDA of 10 million dollars.

Interest expense, excluding intersegment interests, increased in the 4th quarter by 140% to 12 million dollars due to the decrease of capitalized interest expenses. Intersegment interest expenses increased by 18% to 38 million dollars. That resulted in a 68 million dollar Net loss for the 4th quarter vs a 39 million dollar loss in the previous period.

Overall for the year 2009 the ferroalloy segment generated 364 million dollar revenue from the 3rd parties, 38 million dollar gross profit, 28 million dollar operating loss, 135 million dollar negative EBITDA and a 310 million dollar net loss on a 163 million dollar negative FX effect.

Power Segment

The power segment performed significantly better in the 4th quarter than in the previous period. The revenue from 3rd parties grew by 46% to 165 million dollars on rising demand and capacity utilization for electricity and heat energy in the upcoming winter topped up by the supply shortage resulting from the accident at Sayano-Shushenskaya hydro power station. The gross profit of 78 million dollars made up almost 29% of the revenue vs. 21% in the previous quarter. The selling and distribution expenses also grew by 37% in line with the increase of sales, which lead to higher energy transmission costs. The operating result posted a 24 million dollar income – or 9% of the revenue – 6 time increase over the operating result in the 3rd quarter of 2009. The EBITDA showed a similar result – 25 million dollar or 3,7 times q-o-q growth. For the last quarter of 2009 the segment generated almost a 10 million dollar net income vs a 4 million dollar loss in the previous period.

Overall for the year 2009 the power segment generated 534 million dollar of revenue from 3rd parties and 339 million dollars of sales to the other group's segments. The segment added 230 million dollars of the gross profit to the consolidated result, which is the 3rd highest result among the Group's segments after the mining and steel businesses, serving as a good example of the benefits of diversification and vertical integration of our business model. The same could be said about the segment's EBITDA, which posted 51 million dollars respectively – 6% of the revenue in each case – only 3 million dollar less than the steel EBITDA. The operating profit of 41 million dollars was the only positive result – along with the mining one - in the Group in 2009. The segment also managed to generate almost 2 million dollars of Net Income for the year.

Sales Overview

On the consolidated basis the 4th quarter of 2009 brought the highest revenue of 1 billion 720 million dollars as compared to each of the other three quarter and the highest gross profit of 570 million dollars or 33% of the revenue. The Group posted 131 million dollars of operating income – or almost 8% of the revenue. The EBITDA of 683 million dollars included a 433 million dollar

positive effect from the CVR revaluation on the purchase of Bluestone. That also affected the bottom line with the same value, which posted 414 million dollars of net income.

Overall for the year the Group's sales reached 5 billion 754 million dollars, gross item posted an almost 1.8 billion dollar profit – or 31% of sales. The Group finished the year with an operating income of 246 million dollars, almost 1 billion dollar of EBITDA - or 17% of sales - and 74 million dollar of Net Income.

Cash generation capacity

Now I will touch briefly upon the situation with cash flow generation in the Group in the 4th quarter. As we have mentioned before, the Group began to grow sales starting from the 3rd quarter as markets improved and capacity utilisation increased to almost pre-crisis levels. During the previous periods we were divesting the working capital, squeezing out cash in order to finance the day-to-day operations of the Group. Overall the positive working capital effect on the cash flow from operations for the first 9 months of 2009 amounted to 660 million dollars. Usually as the business restarts growth and sales increase, the reverse is common: the necessary growth of working capital requires reinvestment of cash. Therefore it was natural that the 4th quarter showed a net investment of 50 million dollars in working capital. Thus the cash flow from operations totaled only 60 million dollars.

At the same time the Group continued to unfurl its investment program, which was largely put on hold during the crisis. 298 million dollars were spent on investments in the 4th quarter – almost 3 times more than in the previous one. About 90% of that amount was spent on acquisition of property, plant and equipment. All that was financed by attracting new long-term loans, whereas the operating cash-flow was used to meet the current repayment schedules. In the 4th quarter the Group also paid 208 million dollars of dividend for the year 2008 on preferred and ordinary stock.

Overall for the year 2009 the Group generated 562 million dollars in operating cash-flow, spent 710 million dollars on investment and attracted net 375 million dollars of new financing.

Debt profile

The net debt increased by 383 million dollars to 5 billion 583 million dollars in the 4th quarter. The backward looking ratio of Net Debt to EBITDA adjusted for FX effect improved from 4.8 times to 4.3 times during the period, the EBITDA interest coverage improved from 3 times to 5.4 times. Due to the extension of the repayment schedule of the 15 billion ruble loan from VTB, taken in December 2008 and 1 billion dollar loan from Gazprombank drawn in February 2009 the maturity profile of our debt improved significantly as presented on the slide 14.

Along with the work on improving the repayment profile of our debt we have also been working on decreasing the debt service by diversifying the funding sources and decreasing interest rates on our debt. After the opening of the public market for ruble debt we placed altogether 10 billion rubles of bonds and commercial paper in the 4th quarter 2009 with 2 to 3 year duration and 12,5% coupon, which set a new benchmark for our unsecured debt. As a result of these optimizing initiatives, the interest expense decreased by 10% to 127 million dollars in the 4th quarter as compared to the 3rd one despite growth in the gross debt. We continue to utilize these market opportunities by further refinancing of the current more expensive debt: in March 2010 we issued another 5 billion ruble worth of 3-year commercial paper, currently the books are open for another

10 billion ruble issue. At the same time we are also reducing the cost of bank debt to level up with the market.

FY2008 Results overview

To recap, the market recovery, which began to show up in the 2nd quarter of 2009, continued in stable positive trends into the 4th quarter and the new year, which ensured gradual recovery of the Group's financial position and growth of our operations to pre-crisis levels. We are proud of the fact that the resilience to adverse market conditions, which hinges on the integrated and diversified business model we have built over the last 10 years has proven itself to the full extent and allowed us not only to withstand the crisis but to use it to increase our market share in certain products, expand the global presence of our key segments and win new product and geographical markets. That allows us to look into the year 2010 and beyond with strong expectations to take this success further and transform it into additional value for our shareholders.

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