

CFO's speech (2009 NINE MONTHS FINANCIAL RESULTS)

Good afternoon ladies and gentlemen.

Sales Overview

As we reported during the conference call 4 weeks ago the 2nd quarter was witness to the new market and production trends, which should lead to superior results in the 2nd half of the year. Today we are proud to report the results of the 3rd quarter which confirm those words and demonstrate that our business has returned to profitability with full capacity utilization across all the business segments.

As the production fully recovered and pricing for almost all our products improved, sales grew 23% to 1.6 billion dollars q-o-q, gross profit jumped 73% to 537 million dollars with a substantial improvement in the gross margin from 24% in the 2nd quarter to about 34% in the 3rd one. Sales, administrative and operating expenses grew only insignificantly, which resulted in a 155 million dollar operating profit versus a 55 million dollar operating loss in the 2nd quarter. The FX gain of 118 million dollars was 2,6 times lower than in the previous quarter. Despite that the EBITDA grew 14% to 420 million dollars q-o-q or 27% of revenue. Although the Net income of 132 million dollars was lower than in the previous quarter, the reported period is also unique for the first time that the business posted net profit before FX effect since the 4th quarter of 2008.

Overall for the 1st 9 months of 2009 sales exceeded 4 billion dollars with a 30% gross margin, EBITDA reached 316 million dollars, the bottom line posted a 340 million net loss.

Steel Segment

Let's take a look at the steel segment. As we reported earlier the capacity utilization here reached 100% in the 3rd quarter with production sometimes exceeding the pre-crisis level as the investment program began to show results. Prices on FCA basis were also demonstrating a general upward trend with billet up 9%, rebar – 7%, wire rod – 10%, wire – 5%. Flat steel showed a much superior growth – 22% on average with stainless flat up 7%. Price for forgings also increased by 19%, whereas stampings on the contrary experienced a correction by 12%. At the same time strong foothold on the Russian market offered by Mechel-Service helped us to maximize the benefits of its gradual recovery, increasing the share of the Russian local market in the segment's revenue to 52% from 47% in the previous quarter.

The upward trend in prices was partly compensated by slightly increased dollar cash costs, which was mostly due to ruble appreciation. Thus the cash cost of billet edged up to 276 dollars, wire rod – to 297 dollars and rebar – to 300 dollars. That nevertheless was far not enough to compensate for the double effect of growing prices and more importantly volumes, pushing gross margin in the 3rd quarter up almost 2,5 times to 25% on the revenue from sales to the 3rd parties of 926 mln dollars – a 23% increase over the previous quarter. Operating result of 68 mln dollars was an opposite of a 74 mln dollar loss in the 2nd quarter. EBITDA doubled to 158 mln dollars, the EBITDA margin grew to 16%. It is notable that the impressive result took place despite the fact that the FX gain of 40 mln dollars in the reported period was almost three times lower than in the previous one. For the bottom line the positive operating performance was partly offset by the 62% increase in the interest expenses, which totalled 57 mln dollars. That resulted from the restructuring of the 1.5 bln dollar Oriel bridge, which took place in July. Previously the

facility was attributed to the ferroalloy segment in our segmental reporting. 500 mln dollars of the facility were repaid out of the Gazprombank loan for Yakutugol and Southern Kuzbass. The rest was refinanced to match the structure of the 2 bln dollar syndicated loan raised to finance the acquisition of Yakutugol in 2007. The borrowers under that facility were Chelyabinsk plant, Southern Kuzbass Coal Company and South Urals nickel plant, the bulk of the loan falling on the Chelyabinsk plant. Hence most of the interest expenses from 3rd parties previously attributed to the ferroalloy segment are now transferred to the steel and mining segments compensated by the intersegment interest income and expenses.

Despite lower FX effect the bottom line demonstrated a 26% increase to 46 mln dollars. The figure for the 9 months nevertheless demonstrated a 275 mln loss on the revenue from sales to the 3rd parties of 2 billion 324 million dollars and negative EBITDA of 23 million dollars.

Mining Sales: Structure and Prices

The main driver of the financial result in the mining segment during the reported period was coking coal performance. Its economics were affected by 3 major factors. Firstly the take-off in the coking coal prices in the 2nd quarter continued into the 3rd one. The FCA price increased to 92 dollars on average primarily on the account of the export markets, whereas the domestic market was still flat. Thus the price factor for coking coal added 34 million dollars to the revenue of the segment. That was only very slightly compensated by 4% decrease in steam coal and 8% decrease in the iron ore prices on FCA basis, which both totalled 9 million dollars off the revenue. That decrease was the result of redirection of a part of steam coal sales from the export to the domestic market, which offered slightly lower prices but a more stable growing demand as the industry started to recover.

Secondly, the pick-up in coking coal production, which began in the 2nd quarter, continued in the 3rd one, especially at Yakutugol. As a result, the sales volumes increased 82% tonnage-wise, whereof export sales only jumped three times to 860 ths tonnes. This factor added 66 million dollars to the sales item.

Thirdly, the increase of production had a direct positive effect on cash costs, which fell to 32 dollars per tonne of coking concentrate at Southern Kuzbass and 22 dollars at Yakutugol. The integration of Bluestone in the Group's sales, cost saving efforts and ramp-up in production resulted in a sharp decrease in cash costs of coking coal concentrate to 61 dollar. Cash costs of steam coal fell to 14 dollars in Kuzbass and remained at the level of 17 dollars in Yakutia. The costs of iron ore concentrate improved further to 22 dollars.

Consequently sales to the 3rd parties increased by 26% to 416 mln dollars q-o-q with gross margin at 46% of the revenue. Bluestone added 58 mln to the sales item. With the increase of sales distribution expenses increased by 25% to 92 million dollars. However, a 13% decrease in administrative expenses, a 38% decrease in non-profit taxes and a 7 mln dollar reverse in the provision for doubtful accounts more than offset that increase and resulted in a 2% drop in the operating expenses. As a result, the operating profit jumped 6 times to 73 mln dollars in the reported period or 15% of the segment revenue. EBITDA more than doubled to 282 mln dollars, whereof FX contributed 89 mln dollars. The EBITDA margin increased to 58% of the revenue. Interest expenses from 3rd parties increased by 21% to 79 mln dollars q-o-q as a result of debt restructuring described above. Another effect of the restructuring was the 3 times jump in the inter-segment interest income to 35 million dollars. Net income also grew almost three times to 129 mln dollars or 27% of revenue.

For the whole 9 months of 2009 segment generated 1 billion 91 million dollars of sales to the 3rd parties, 464 million dollars of EBITDA and 113 million dollars of Net Income.

Ferroalloy Segment

With the restart of all the facilities in the ferrosilicon, ferronickel and ferrochrome production in the 2nd quarter and launch of full scale operations at the Voskhod mine in July, the ferroalloys segment was working at full capacity in the reported period. The price trends continued to improve the economics with average nickel prices up 46% to 16.1 ths dollars a tonne, chrome prices up 37% to 1.6 ths dollars, price for ferrosilicon remaining flat. That resulted in the 54% increase in sales to the 3rd parties to 120 million dollars for the reported period. An increase in input prices, mostly due to ruble appreciation lead to a slight inflation in cash cost for nickel, which increased to 13.7 ths dollars a tonne. The ramp up of the ferrochrome production and full utilization of the vertical integration into chrome ore on the contrary helped to reduce cash cost of chrome by almost 70% to 1.37 ths dollars a tonne. As a result the gross profit of the segment jumped 6 times to 28 mln dollars, or 20% of revenue.

Operating expenses increased by 71% to 17 mln dollars or 12% of total segment sales vs 11% in the previous quarter. The increase is largely attributable to a 105% growth in selling and distribution expenses, which came firstly as a result of general increase in sales volumes of nickel and ferrosilicon - nickel sales volumes were up 31%, ferrosilicon – up 18%. The other factor was the increase in railway tariffs as well as growth of export share to 88% of sales. Another reason for operating expense growth was the one-off withholding tax expenses of 4 mln dollars at Oriel Resources plc. Administrative expenses on the contrary fell 16% to only 6% of the segment revenue vs 12% in the previous quarter. Operating expenses for the 2nd quarter also included a 3 mln dollar reverse of the provision for doubtful accounts, which was absent in the 3rd quarter. That all resulted in the operating profit of 11.2 mln dollars for the reported period vs a 5.5 mln dollar operating loss in the 2nd one. EBITDA fell to 21 mln dollars - or 15% of sales - from 153 mln dollars in the previous quarter. That was largely the result of a reverse in the FX item from 142 mln dollar gain in the 2nd quarter to 11 mln dollar loss in the reported one. The reason for that was the described above restructuring of the Oriel bridge facility, which effectively took away the 1.5 billion dollar denominated loan from the ferroalloy segment's balance sheet and replaced it with intercompany loans from the steel and mining segments. However, if the FX effect is stripped of the EBITDA the 3rd quarter item demonstrates an almost 3 times increase over the 2nd quarter to 33 mln dollars.

The effect of the bridge facility restructuring on the Interest expense was twofold: on the one hand the interest expense from 3rd parties halved to 5 mln dollars. On the other the inter-segment interest expense amounted to 32 mln dollars, being insignificant in the previous periods. The interest expense and FX loss resulted in a 39 mln net loss. Overall for the 1st 9 months of the year the segment generated 250 mln dollars of sales to the 3rd parties, 133 mln of negative EBITDA and 242 mln of net loss.

Power Segment

The 3rd quarter was seasonally low on power sales with average realized price decreasing by 4% to 41 dollar per megawatt-hour. Consequently, sales of the power segment to the 3rd parties slightly decreased to 113 mln dollars. At the same time intragroup sales grew by 24% to 90 mln dollars. Gross profit of the segment comprised 43 mln dollars, or 21% of segment revenue – a 10% q-o-q decrease in absolute terms. Selling and distribution expenses decreased by 5% to 37.6

mln dollar or 19% of segment sales vs 21% in the previous quarter. Administrative expenses almost halved to 2.2 mln dollars, the provision for doubtful accounts reversed from a negative 3 mln in the 2nd quarter to a positive 2.4 mln in the 3rd one as payment discipline improved. All that translated into a 19% decrease in operating expenses, which fell to 19% of segment sales from 25% in the previous quarter.

The operating result posted a 4.3 mln dollar profit vs a negligible result in the 2nd one. EBITDA increased 34% q-o-q to 6.9 mln dollars. The FX effect was negligible. Due to inter-segment interest expenses of 7 mln dollars the power segment generated a 3.8 mln dollar net loss, which however was 17% lower than in the previous quarter.

Overall for the 1st 9 months the segment generated 369 mln dollar sales to the 3rd parties, 26 mln dollars of EBITDA and 8 mln of net loss.

Cash generation capacity

The business continued to generate positive operating cashflow in the 3rd quarter. Although the potential to squeeze cash from the working capital has largely been used up in the previous two quarters and with ramp up of production the investment in the working capital increased, the changes in that item generated 92 mln dollars of cash during the reported period. Thus the cash flow from operations posted 130 mln dollars or 8% of sales in the 3rd quarter. That was mostly used to finance operations as well as scheduled debt repayment, whereas the 103 mln dollars of investment outflow were financed using long-term financial instruments. The restructuring of Oriel bridge facility along with other scheduled debt repayments resulted in 507 mln dollar cash outflow from financing activities and reduced cash to 409 mln dollars.

Debt profile

Gross debt decreased by 311 mln dollars in the 3rd quarter as result of a combination of debt repayment and raising of new debt to finance investment program. The latter is largely represented by the 5 bln ruble tranche of the Elga bond placed in August. The Net debt increased by 102 mln dollars to 5.2 bln dollars in the end of the reported period. The net debt to equity ratio remained flat at 1.5 times. The backward looking Net Debt to EBITDA adjusted to FX effect increased to more than 8 times as the positive result of the 3rd quarter of 2008 has now been taken out from the calculations. At the same time the forward looking Net Debt to EBITDA ratio adjusted to FX effect has decreased to 4.3 times from 19 times based on the 2nd quarter figures.

The debt profile continued to improve as we utilized the growing public market in Russia to replace some of the short-term revolving debt with 5 bln ruble of a 2-year commercial paper in November. We also agreed an extension of the 15 bln ruble loan from VTB over 3 years with 2.5 year grace. Today with 550 mln dollars of available credit limits and 45 bln rubles of registered commercial paper we are looking to continue optimization of our debt portfolio from the stand point of both maturity and interest expenses.

FY2008 Results overview

To sum up – as we suggested at the last conference call, the positive trends of the 2nd quarter of 2009 continued into the 3rd one and crystallised in the solid financial and operational result,

which put our business back on a strong foothold for further growth and expansion. The market trends of the 4th quarter demonstrate that product and geographical diversification as well as the ability to sell to the final customers remain the main advantage for a business and we are looking to utilize this advantage with maximum effect for the value of the business in the coming year.

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