






# FY 2008 Results Presentation

**June 3, 2009**

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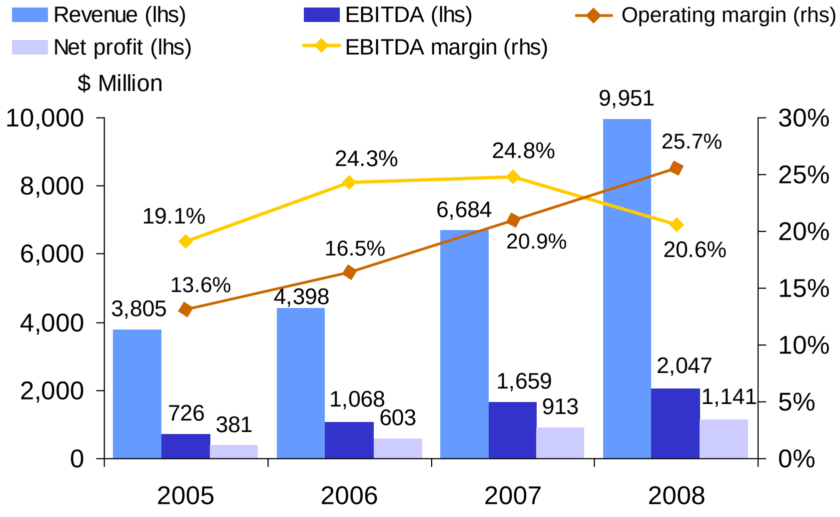
# Financial Review

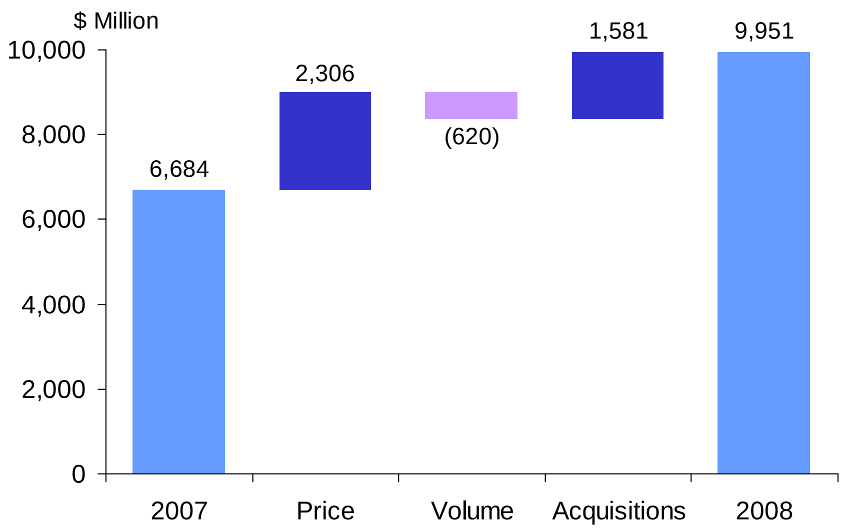
# Stable Financial Performance

- Record operational results:
  - Revenues grew by 49% to $10.0 bln
  - Operating profit up 83% to $2,6 bln
  - EBITDA increased by 23% to $2.0 bln
- 16% of revenue came from acquisitions made in 2007 and 2008
- ROE over 30%
- FY08 results reduced by FX loss of $877 mln due to Russian ruble depreciation

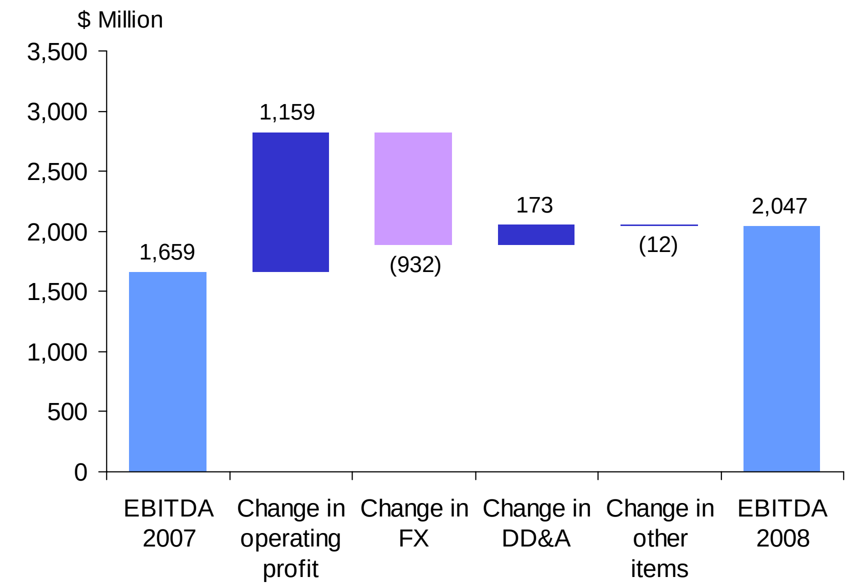
## Revenue, EBITDA and Net profit




## Revenue Dynamics



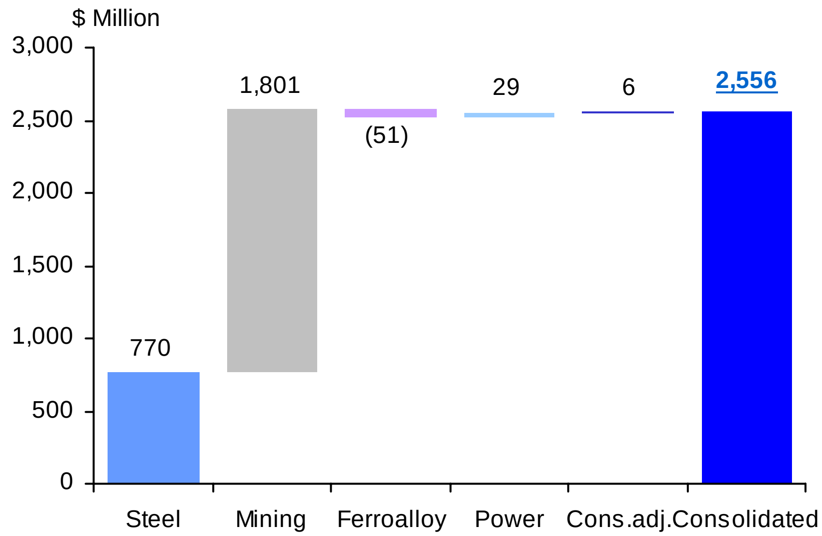

## EBITDA Bridge



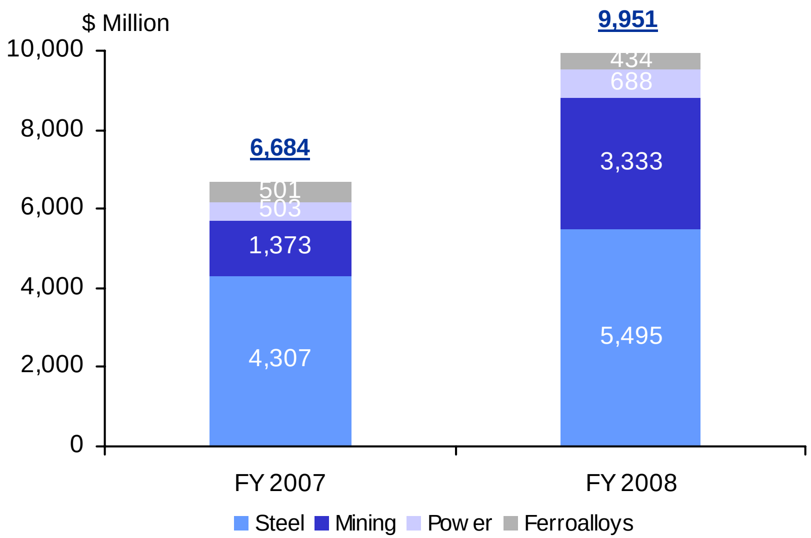
# Segments Overview

- High degree of diversification and vertical integration helps mitigate risk and provides stability
- Mining and Steel segments dominate in the operating result
- Increase in export share in 2008 revenue – 38%

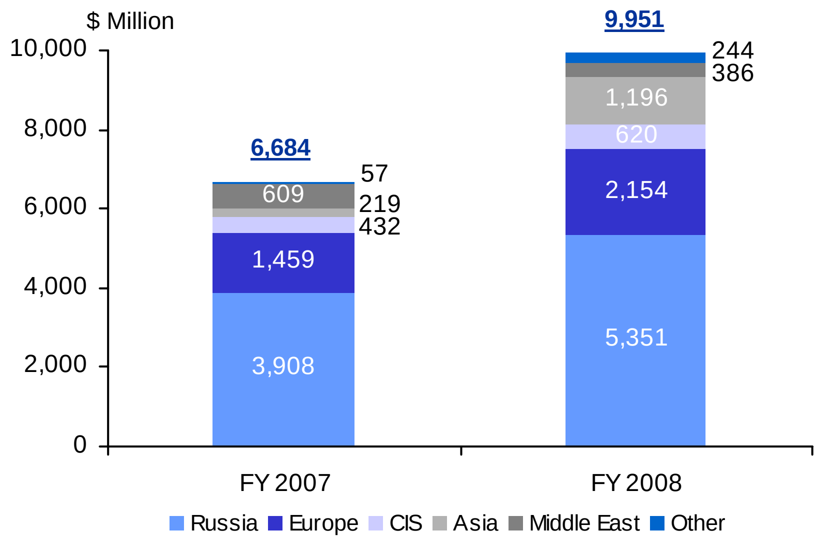
## Operating profit by segments




## Revenue from third parties



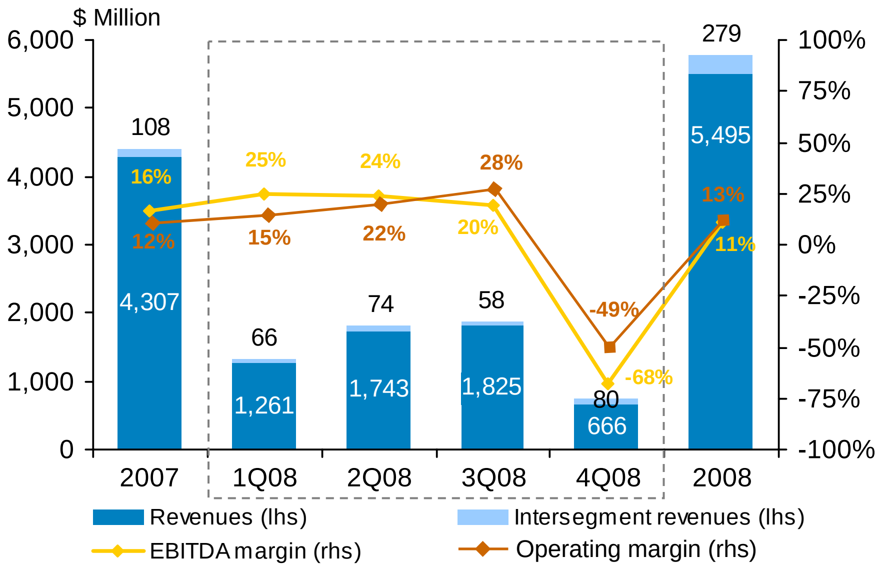

## Revenue by market



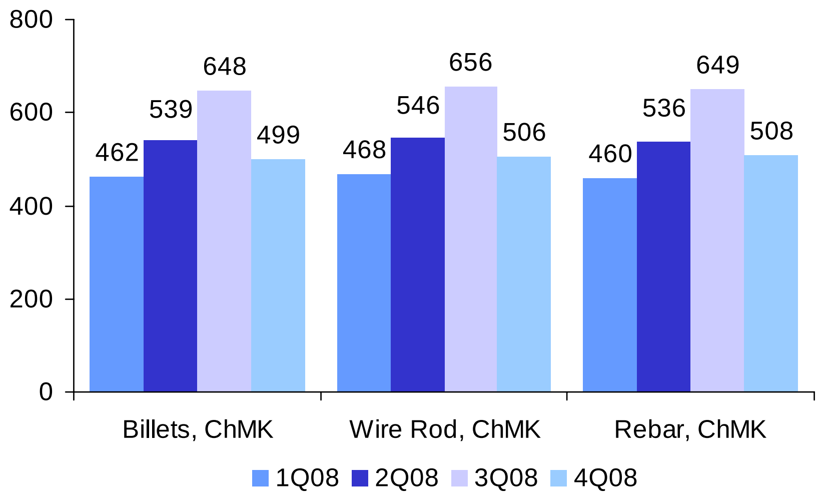

# Steel Segment Performance

- Revenue up 28% to $5.5 bln
- Operating profit up 43% to $770 mln
- High carryover stock affected profitability in 4Q08
- Export of semi-finished steel and long-steel products helped the financial result in 4Q08
- Bottom line affected by a $220 FX loss in 4Q08

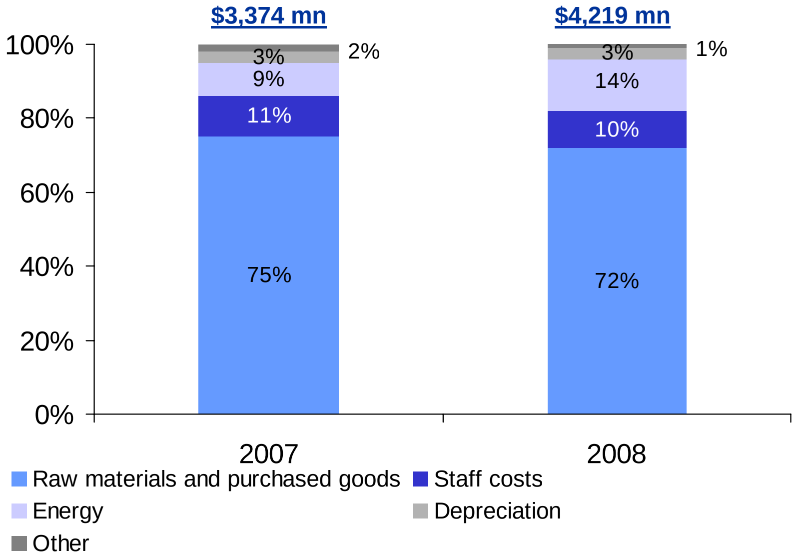
## Revenue, EBITDA




## Cash costs, US$/tonne



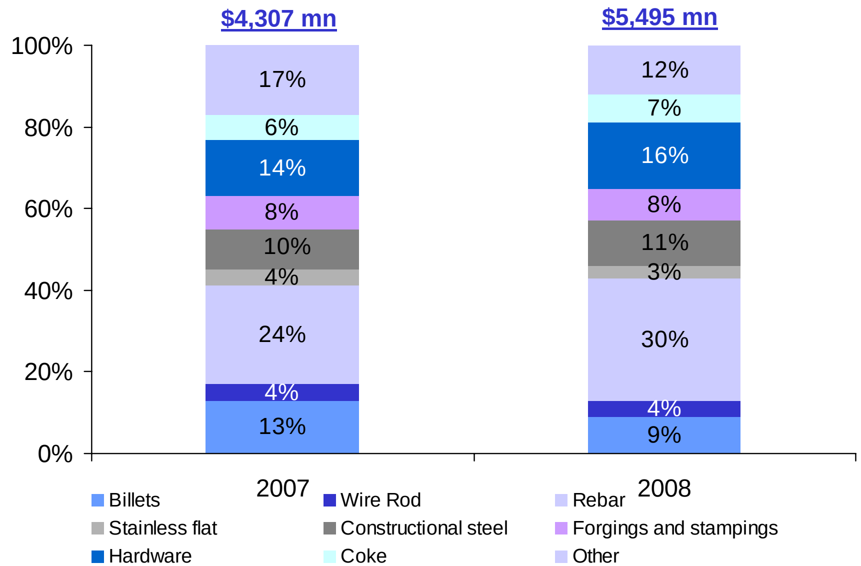

## COS structure



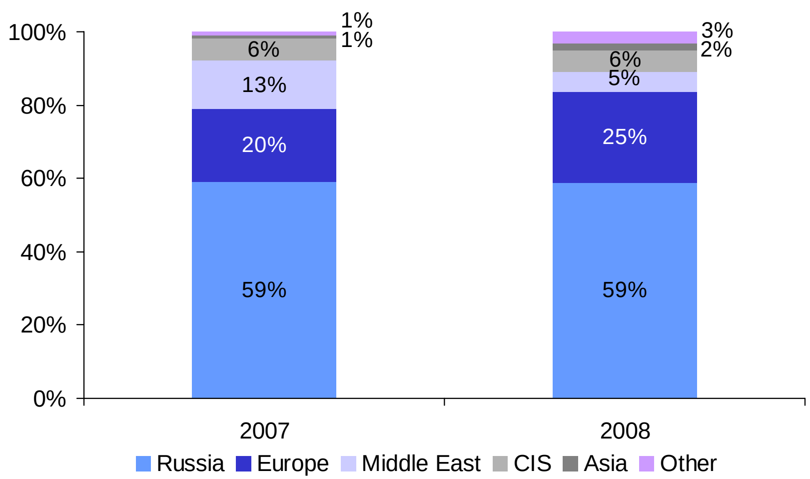
# Steel Segment Performance

- Product diversification and concentration in the long product niche supports sales
- Increased sales to Europe through new acquisitions
- Mechel Service - key to stable sales:
  - Daily sales of 4.9 ths tonnes of steel products in the 4Q08 rising to 5,4 ths in the 1Q09
  - Estimated 25% of the domestic rebar market
  - HBL sales represented 21% of revenue in Europe in 4Q08

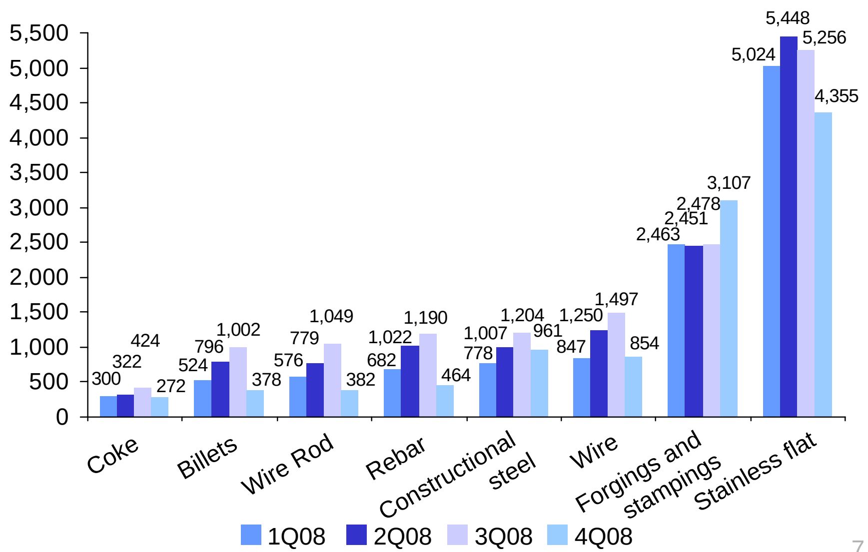
## External sales structure




## Revenue breakdown by region



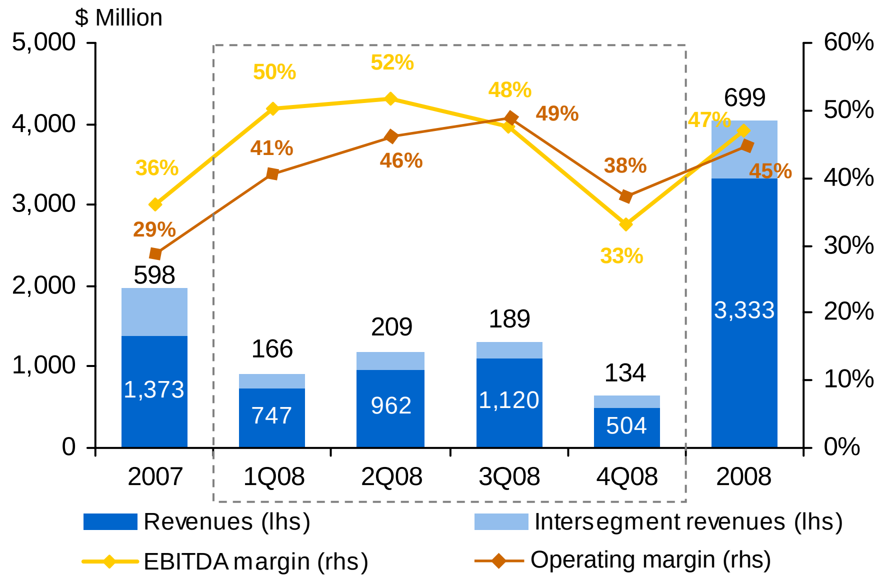

## Average sales prices FCA, US$/tonne



# Mining Segment Performance

- 33% of the consolidated revenue in FY08
- Gross margin rose to 70%
- Internal sales rose to 32% in 4Q08 for coking coal and 57% for iron ore
- Production of steam coal at Yakutugol increased by 37% in 4Q08
- Cash cost fell for coking coal at Yakutugol and steam coal across the assets

## Revenue, EBITDA

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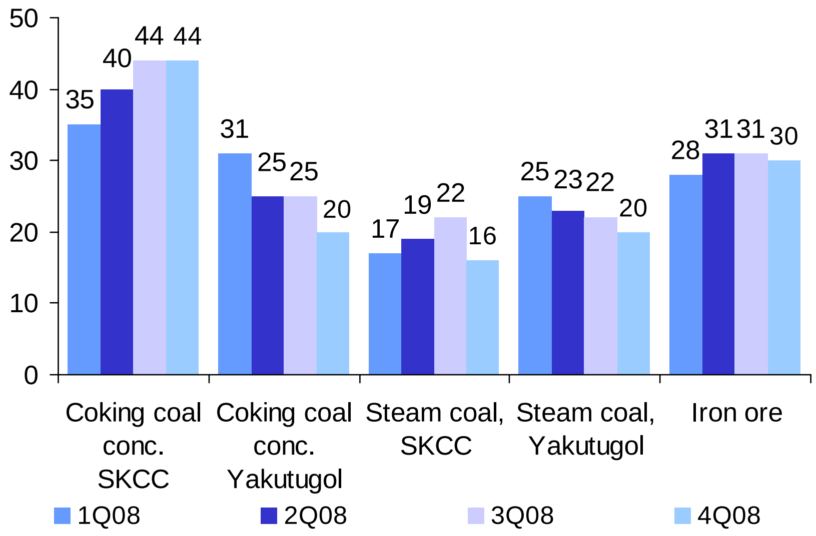


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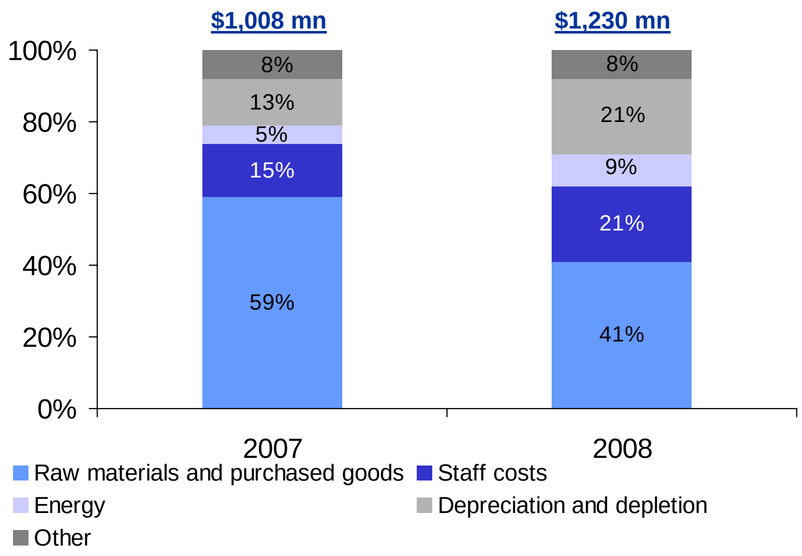
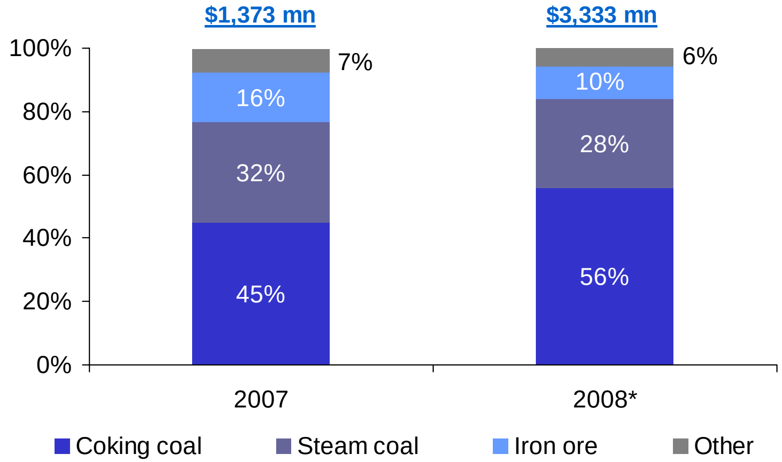


# Mining Segment Performance

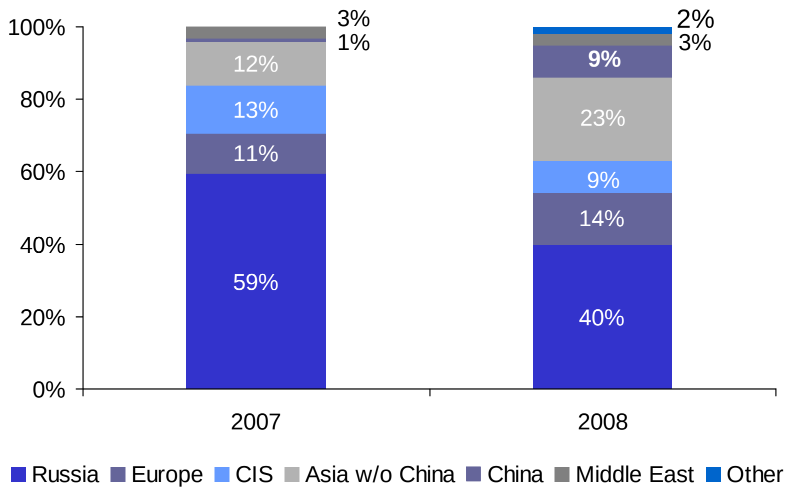
- Sales in 4Q08 supported by annual export contracts
- Wider geography of sales:
  - Share of Russia fell to 40%
  - Growth of sales of coal and iron ore to Northern China
  - Acquisition of Bluestone will diversify coking coal sales to North American and European markets
- Coal stock decreased by 286 ths tonnes in 4Q08 and by further 900 ths tonnes in 1Q09

## External sales structure

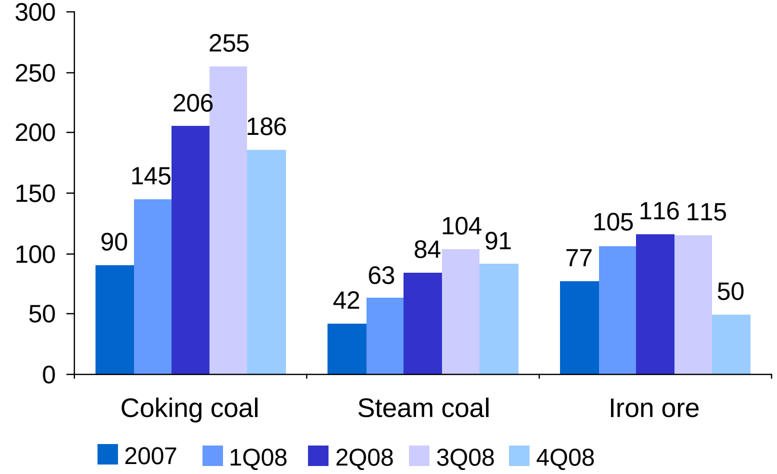



(*) Includes results of Yakutugol which was acquired in 4Q07

## Revenue breakdown by region



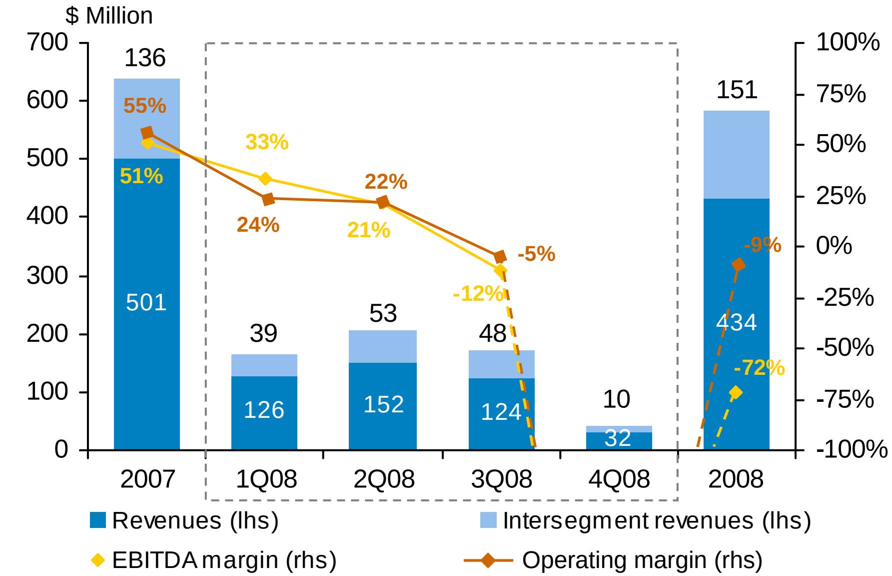

## Average sales prices FCA, US$/tonne



# Ferroalloys Segment Performance

- Visible synergies from vertical integration - Internal sales generate 26% of the segment revenue in FY08
- FX effect contributed $382 mln to the negative bottom line in 4Q08
- Stable FeSi demand and low cost of production keeps Bratsk ferroalloy plant at 100% capacity utilisation

## Revenue, EBITDA

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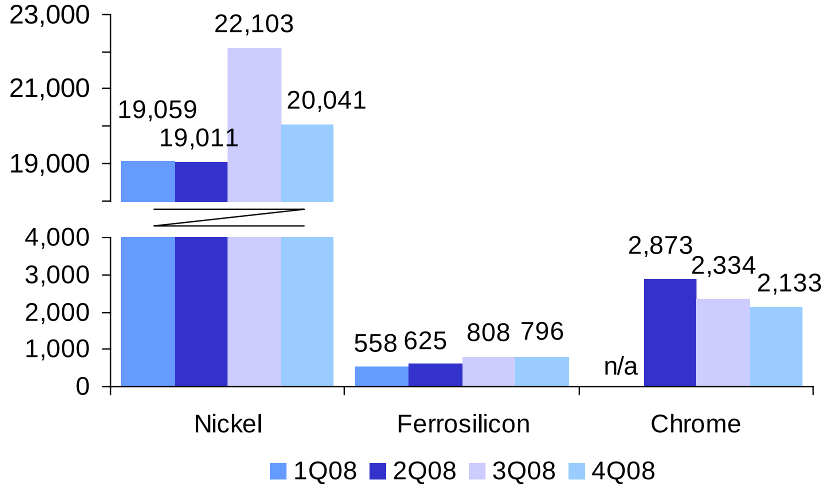


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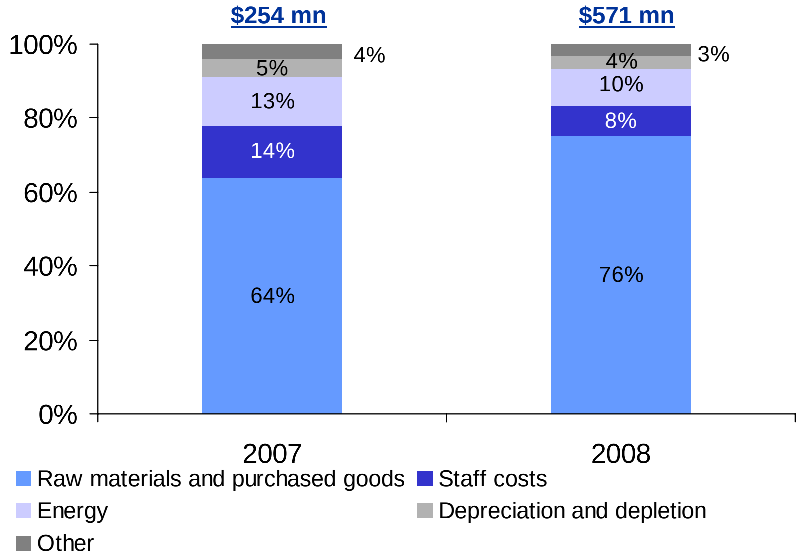
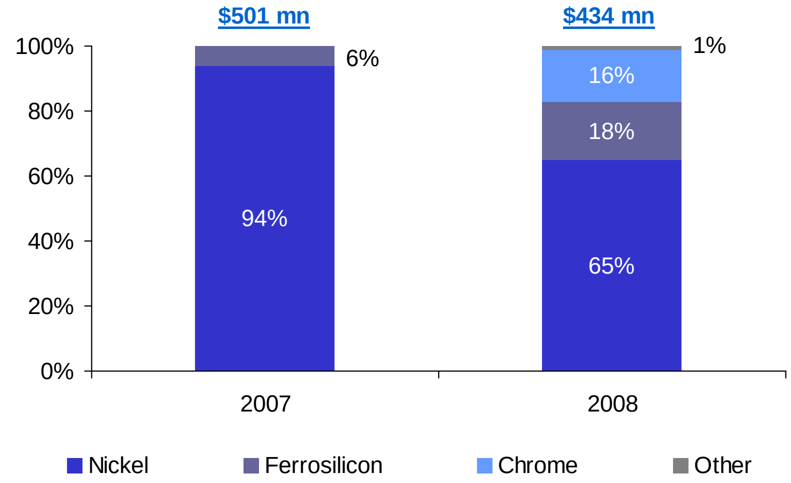


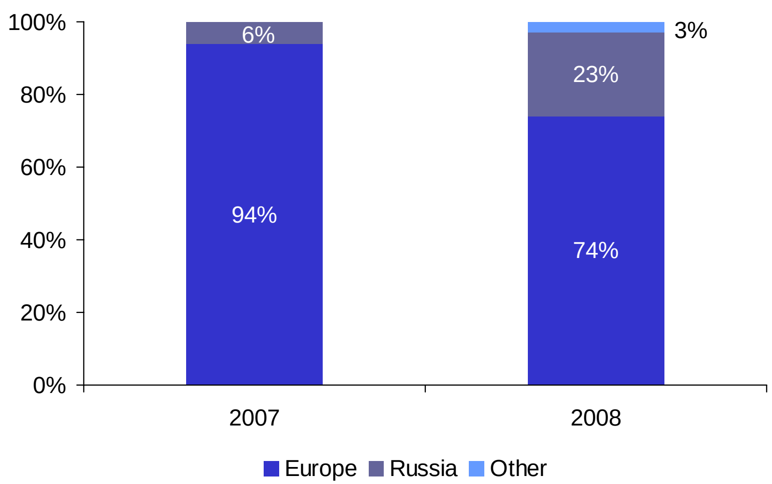
# Ferroalloys Segment Sales

- Nickel prices show recovery in the 1H09
- Production at SUNP is back to precrisis level in June 2009
- Expected recovery of FeCr business:
  - From April 2009 Tikhvin plant completely switched to internal ore supplies
  - Production at Tikhvin plant back to precrisis level in June 2009
  - Voskhod Chrome mine expected to ramp up to full capacity in July 2009 bringing the cost of FeCr down

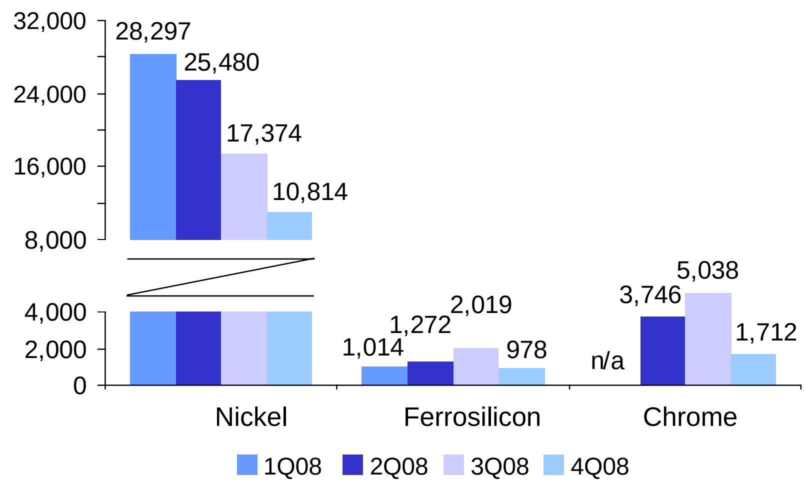
## External sales structure




## Revenue breakdown by region



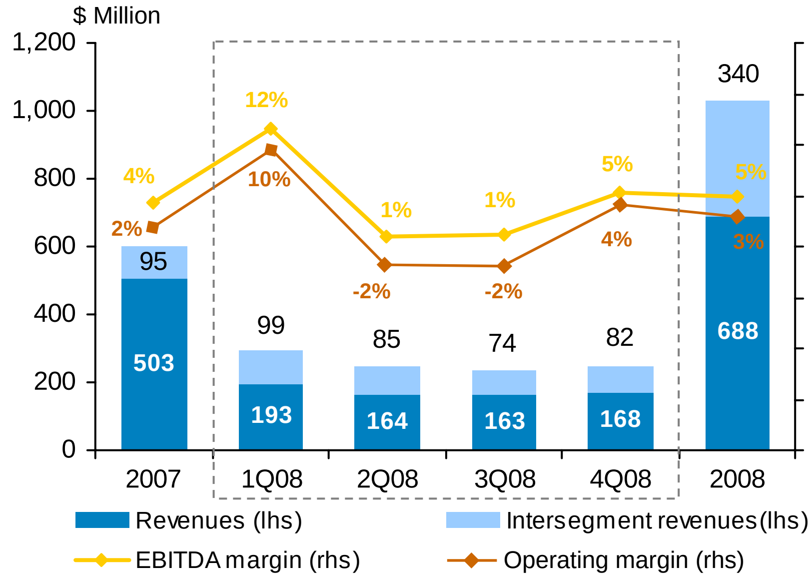

## Average sales prices FCA, US$/tonne



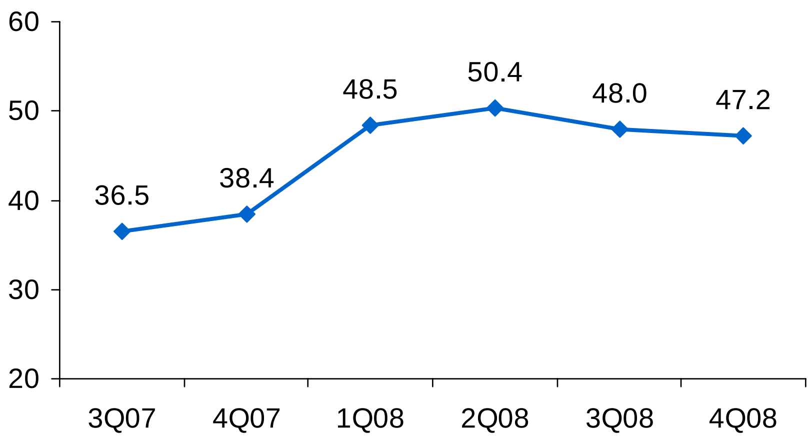
# Power Segment Performance

- 1st year of Net Income - $3 mln
- Stable performance during market turbulence in 4Q08
- Reduction of cash cost q-o-q improves profitability
- Electricity market liberalisation shows effect – price up 29% y–o-y
- Increasing reliance on own power generation – internal sales represent 33% of revenue in 2008 vs. 16% in 2007

## Revenue, EBITDA




## Average electricity sales prices, US$/MWh

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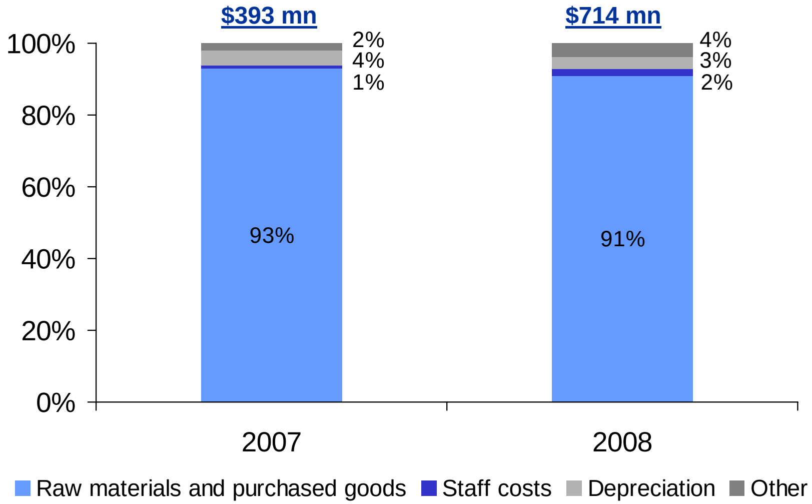
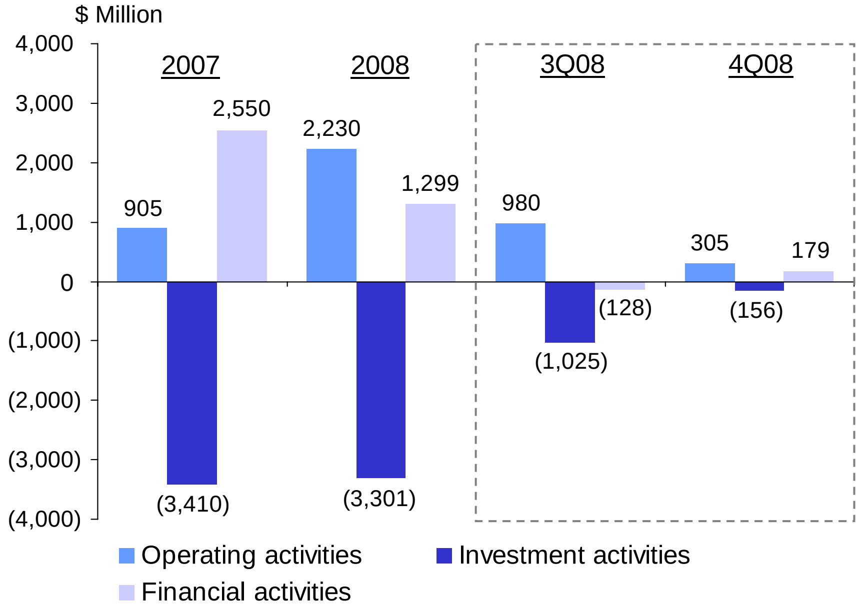


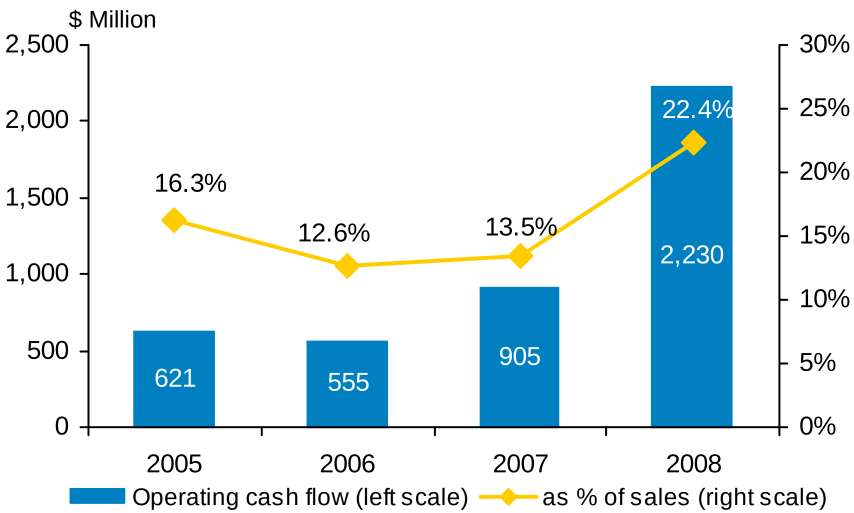
# Cash Generation Capacity

- Strong cash flow generation
  - 2.5x increase in operating cash flow
  - Cash flow – record 22% of sales
  - Following revision of capital expenditure plans Mechel expects to continue to generate stable free operating cash flow, despite challenging market conditions
  - Tight control over working capital
- 2008 investment cash flow is driven by $2.1 bln for M&A and $1.2 bln for PP&E

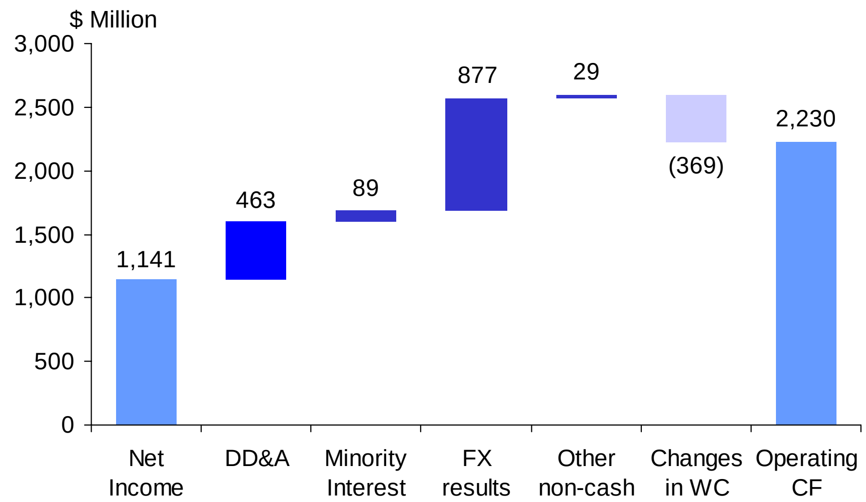
## Net Cash Flow




## Operating cash flow



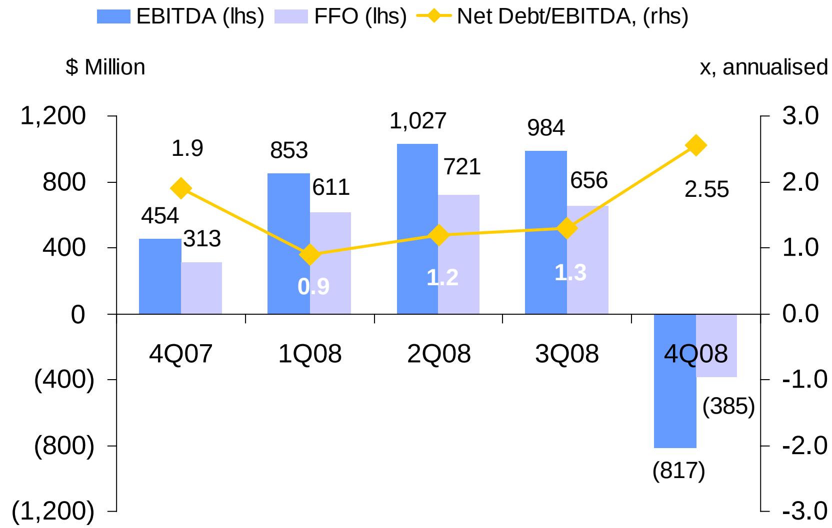

## Operating Cash Flow Bridge



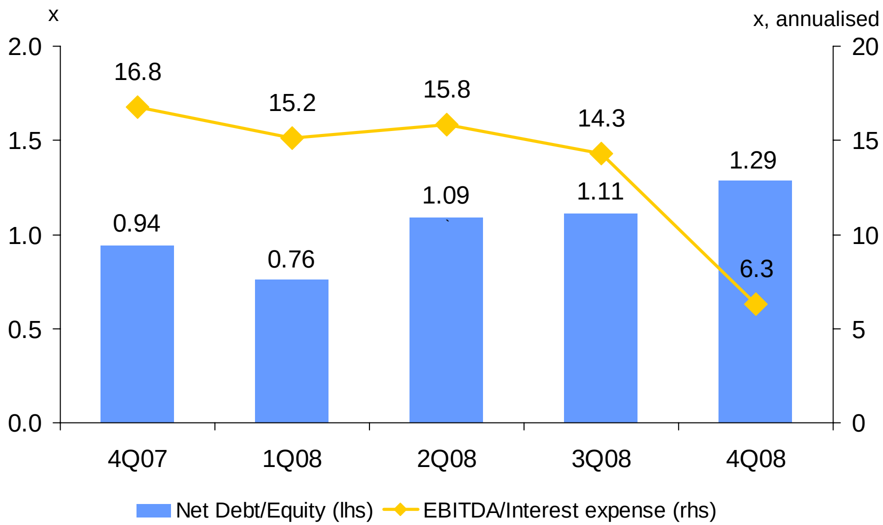
# Debt Metrics

- Operating cash flow was sufficient to service debt in 4Q08
- All modernisation and expansion capex financed with long-term debt instruments
- Existing debt covenants in most of the facilities with foreign banks:
  - Net Debt / Equity – 1:1 – 1.15:1
  - Net Debt / EBITDA – 3:1
  - EBITDA Interest Coverage – 4:1
- Dividend for the 2008 significantly curtailed

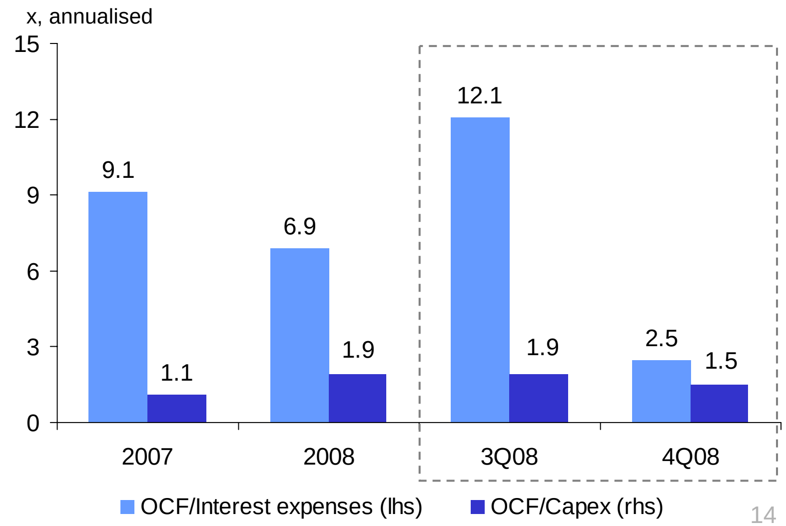
## EBITDA, FFO and Net Debt/EBITDA




## Net Debt/Equity, EBITDA Interest Coverage



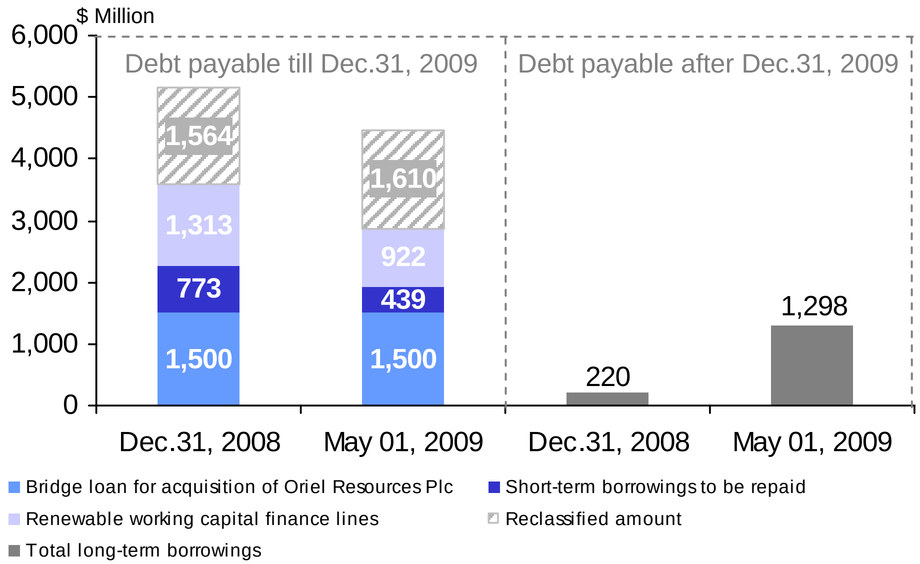

## OCF Interest Coverage, OCF/Capex



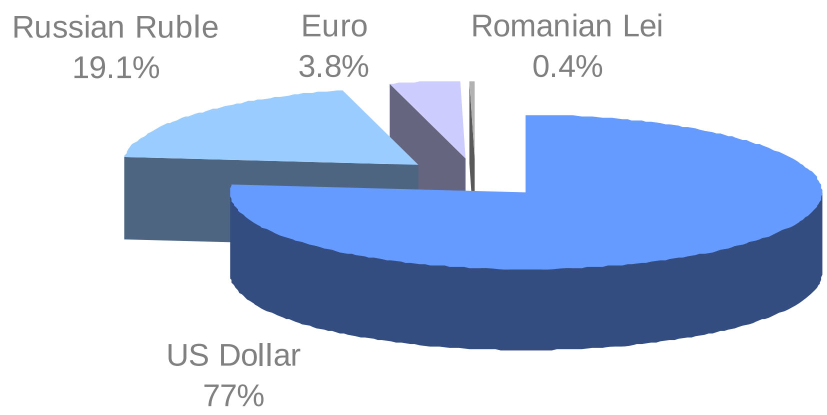
# Debt Profile

- Cash as of May 1, 2009 - $900 mln – sufficient to meet repayment schedule
- Additional liquidity source – RUR 30 bln 1-year registered commercial papers
- $1.6 bln long-term debt – all foreign - reclassified as short-term due to covenant violation.
- Agreement reached with foreign creditors on principle terms of restructuring the $1.5 bln Oriel bridge and amending the terms of the reclassified facilities:
  - The repayment schedule of most of the facilities remain unchanged
  - Oriel bridge partially repaid, the rest refinanced with 1 year grace and 2.5 years repayment

## Debt profile

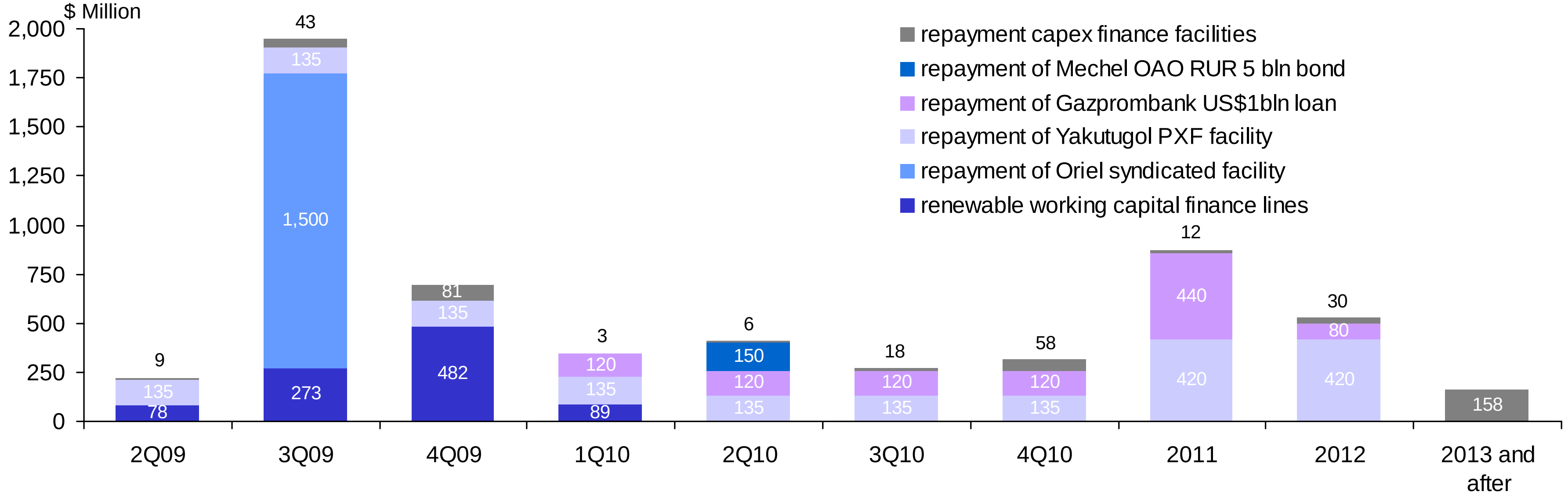



## Debt profile, as of May 01, 2009

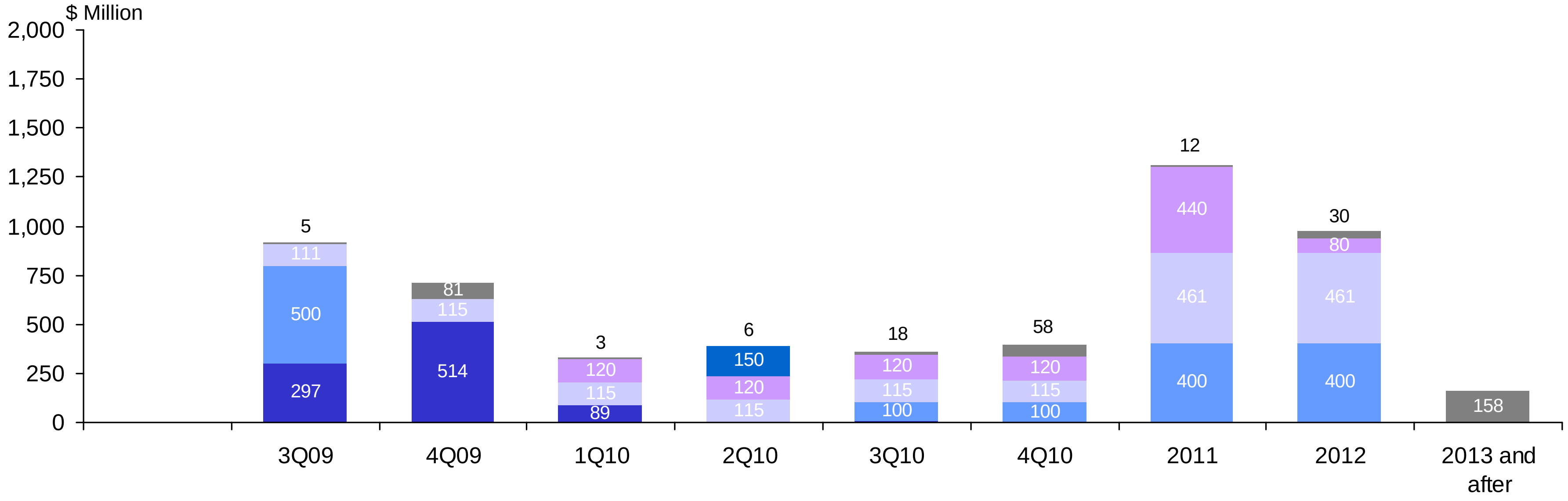


# Debt Profile

## Loans repayment schedule as of May 01, 2009




## Loans repayment schedule as after refinancing in July, 2009



# Financial Results Overview

| US$ million unless otherwise stated | 2008 | 2007 | Change, % |
|---|---|---|---|
| Revenue | 9,951 | 6,684 | 49% |
| Cost of sales | (5,260) | (4,167) | 26% |
| *Gross margin* | *47.1%* | *37.7%* | |
| Operating profit | 2,556 | 1,398 | 83% |
| *Operating margin* | *25.7%* | *20.9%* | |
| EBITDA | 2,047 | 1,659 | 23% |
| *EBITDA margin* | *20.6%* | *24.8%* | |
| Net Income | 1,141 | 913 | 25% |
| *Net Income margin* | *11.5%* | *13.7%* | |
| EPS (USD per share) | 2.7 | 2.2 | 25% |
| | | | |
| Sales volumes*, ‘000 tonnes | | | |
| Mining segment | 19,617 | 15,606 | 26% |
| Steel segment | 5,964 | 6,475 | (8)% |

* Includes sales to the external customers only