


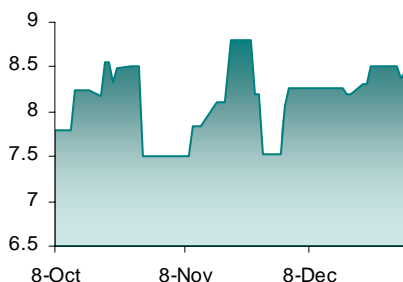
Last Price (delayed)	Price Status (12m dynamic)	Target Price (12m)	Growth possibility (long-term)	Bus. Risk (long-term)	Bus. Risk (mid-term)	Bus. Risk (short-term)	BBA Investment Rating
8.44 USD	underestimated	10.2 USD	high	low	Medium	medium	

Comment on Company's Latest Events

Analyst: Dmitri Timindzjev

Analyst covering this company does not own its stock or those of its closest competitors.

Stock Price (USD)



THE SHARE PRICE IS EXPECTED TO GROW

- We keep our previous outlook for the share price, which means low growth in mid-term and faster growth in 2011. This means that current share price is underestimated. However, 12 months' target price is not far from current market price.
- The main factor that will have influence on Company's share price is price on its production. Steel prices are expected to grow in long-term. Mid-term trend, in general is expected to be positive as well, although declines are possible in some months. We believe that this unstable character of metal prices will prevent fast growth of share price in mid-term.


GOOD MID-TERM, BETTER LONG-TERM

- Further improvements in global demand, higher steel prices and management action on cost reduction initiatives resulted in stronger financial performance with positive net profit and strong cash flow. In Q3 2009 revenue grew by 18% q-o-q and reached 5487 million USD. Despite positive trend, this is still far below year 2008. During 9m 2009 revenues of the Company were two times lower compared to 9m 2008. On the other hand, positive changes allowed becoming profitable once again in Q3 2009. Net profit for Q3 2009 totaled 45 million USD compared to 310 million USD net loss in the previous quarter.
- In mid-term, net profit is likely to be at slightly higher level than in Q3 2009. The main reason is increased revenues due to higher metal prices and improved demand on production of the Company both domestically and internationally. Company will continue to focus on agreeing the operational plan, delivering further cost reduction and tightly managing capital expenditure in mid-term. Although Company's main geographical segments will continue to improve and better capacity utilization will be achieved, we do not expect a strong recovery of revenues in 2010. In our opinion, year 2011 will be better than year 2010 for the Company.

THE COMPANY MAY COMPLETELY RECOVER FROM CRISIS CONSEQUENCES BY THE END OF 2012

- We believe that in 2011 the steel market will start to recover faster than in 2010 and in long-term it is likely to reach close to pre-crisis levels. The Company is likely to benefit from this factor and to improve its business activity significantly. Taking into account current Company's sales level, we believe the growth will be high in the nearest three years.
- It is expected that in H2 2010 the developing markets will need significantly more steel than produced in the world today. The main reason will be China's economy expanding with constant need of increased metal supply. Besides, there are many other developing economies that may increase steel consuming.
- We do believe that local steel demand will also play a role in the Company's long-term expanding. However, the main revenue will go from exported production. It is considered more stable and besides the Company is a key player of world metal market and has potential to improve its position on it. We expect this Company to have great chances of complete recovery by the end of 2012. Our outlook for this Company is positive. Long-term growth possibilities are high, while business risk remains medium until 2011.

THE COMPANYINDUSTRY: MINING AND METALS
COUNTRY OF PRIMARY BUSINESS: RUSSIA

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8.44 USD	underestimated	10.2 USD	high	low	medium	medium	

STRONG CASH POSITION

- The Company has a strong cash position and committed unused credit lines in place to meet its short-term debt requirements. As at 30 September 2009, The Company had 4162 million USD of cash, cash equivalents and short-term bank deposits (as at 30 June 2009: 2343 million USD). Due to a reduction in inventories and better cash management, the Group released a further 442 million USD of cash from working capital in Q3, bringing the total for 9m 2009 to 1234 million USD. As a result, the Company has already exceeded its target of reducing working capital by 1.1 billion USD in 2009. Net debt was 4714 million USD as at 30 September 2009 (as at 31 December 2008: 4732 million USD) with short term liabilities of 1595 million USD.
- As a result of prudent and effective working capital management, Company continues to generate healthy levels of cash. Free cash flow was 245 million USD for Q3, representing a significant increase q-o-q (Q2 2009: 15 million USD).

THE LAUNCH OF ERP

- The Company launches an ERP (Enterprise Resource Planning) project across the company to implement SAP software. As part of the partnership programme a €15.6 million contract has been signed. A fully functional ERP solution is planned to be rolled out over the next 24 months.
- The ERP implementation project will allow the Company to review and increase the efficiency of its key business processes, from production, purchasing and sales to administration and corporate governance. As a result of SAP's rich expertise in the metal industry and established track record in innovation, Company will be better able to balance costs and the need to invest in strategic technology upgrades.
- This new software will not have an immediate impact on Company's business activity. However, we believe that after employees get used to new software, the results will be seen. In our opinion, this will not happen in the nearest three years. Nevertheless, it should be noticed as it slightly affects calculation of investment rating.

BBA INVESTMENT RATING

- This Company looks promising and so does its share price. We consider the Company to be attractive from investment point of view. However, the fact that the only significant revenue growth driver is steel price prevents us from giving very high rating to the shares. Besides, business risk is likely to remain at medium level in the nearest year and this also affects investment rating. We give this Company high investment rating.

QUARTERLY INCOME STATEMENT (Historical)

In million USD (except per share data)	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Revenue	7 654.5	4 240.5	2 796.3	2 851.9	3 486.8
Other Revenue	-	-	-	-	-
Total Revenue	7 654.5	4 240.5	2 796.3	2 851.9	3 486.8
Cost Of Goods Sold	5 024.3	4 104.4	2 759.1	2 659.5	2 922.7
Gross Profit	2 630.1	136.2	37.2	192.4	564.1
Selling General & Admin Exp.	569.5	547.5	389.1	374.0	379.7
R & D Exp.	-	-	-	-	-
Depreciation & Amort.	-	-	-	-	-
Other Operating Expense/(Income)	85.9	89.8	37.6	42.1	53.8
Other Operating Exp., Total	655.3	637.3	426.7	416.1	433.4
Operating Income	1 974.8	(501.1)	(389.5)	(223.7)	130.6
Interest Expense	(140.8)	(188.1)	(150.1)	(142.0)	(137.9)
Interest and Invest. Income	41.3	48.2	28.4	21.8	23.4
Net Interest Exp.	(99.6)	(139.9)	(121.8)	(120.2)	(114.5)
Income/(Loss) from Affiliates	(1.6)	(0.7)	3.8	1.2	1.6
Currency Exchange Gains (Loss)	(53.1)	(233.8)	(381.4)	167.2	54.7
Other Non-Operating Inc. (Exp.)	(15.0)	(12.1)	(11.1)	(10.6)	(8.2)
EBT Excl. Unusual Items	1 805.5	(887.7)	(900.0)	(186.1)	64.1
Impairment of Goodwill	16.4	25.3	-	-	-
Gain (Loss) On Sale Of Invest.	(72.7)	(25.4)	(8.5)	(0.7)	(0.2)
Gain (Loss) On Sale Of Assets	(2.8)	(15.1)	(0.6)	(4.4)	(12.1)
Asset Writedown	3.6	(1 539.8)	(26.8)	(18.0)	(29.6)
Insurance Settlements	32.1	320.4	-	-	-
Legal Settlements	-	267.0	-	-	-
Other Unusual Items	-	0	-	-	-
EBT Incl. Unusual Items	1 782.1	(1 855.3)	(935.9)	(209.3)	22.2
Income Tax Expense	486.9	(608.6)	(250.4)	94.0	(10.9)
Minority Int. in Earnings	(18.9)	37.3	30.7	13.8	33.1
Earnings from Cont. Ops.	1 276.3	(1 209.4)	(654.8)	(289.5)	66.3
Earnings of Discontinued Ops.	-	-	-	-	-
Extraord. Item & Account. Change	-	-	-	-	-
Net Income	1 276.3	(1 209.4)	(654.8)	(289.5)	66.3
Pref. Dividends and Other Adj.	-	-	-	-	-
NI to Common Incl Extra Items	1 276.3	(1 209.4)	(654.8)	(289.5)	66.3
NI to Common Excl. Extra Items	1 276.3	(1 209.4)	(654.8)	(289.5)	66.3
Per Share Items					
Basic EPS	\$1.267	(\$1.203)	(\$0.651)	(\$0.288)	\$0.066
Basic EPS Excl. Extra Items	1.267	(1.203)	(0.651)	(0.288)	0.066
Weighted Avg. Basic Shares Out.	1 007.7	1 005.7	1 005.2	1 005.2	1 005.2
Diluted EPS	\$1.267	(\$1.203)	(\$0.651)	(\$0.288)	\$0.066
Diluted EPS Excl. Extra Items	1.267	(1.203)	(0.651)	(0.288)	0.066
Weighted Avg. Diluted Shares Out.	1 007.7	1 005.7	1 005.2	1 005.2	1 005.2
Normalized Basic EPS	\$1.12	(\$0.552)	(\$0.56)	(\$0.116)	\$0.04
Normalized Diluted EPS	1.12	(0.552)	(0.56)	(0.116)	0.04
Dividends per Share	NA	NA	NA	NA	NA
Payout Ratio %	49.5%	NM	NM	NM	0.4%
Shares per Depository Receipt	1.0	1.0	1.0	1.0	1.0

KEY FINANCIAL RATIOS (Historical)

	2004	2005	2006	2007	2008	Last 12 months
						Q3 2009
Profitability						
Return on Assets %	23.0%	15.8%	10.7%	10.7%	10.9%	(2.9%)
Return on Capital %	27.7%	20.5%	14.1%	13.6%	13.7%	(3.8%)
Return on Equity %	43.4%	34.4%	21.5%	21.1%	21.8%	(21.3%)
Margin Analysis						
Gross Margin %	39.7%	34.6%	30.3%	30.2%	26.4%	6.3%
EBITDA Margin %	32.6%	26.9%	22.9%	23.6%	20.4%	(0.5%)
EBIT Margin %	28.9%	22.2%	18.2%	18.1%	15.6%	(8.0%)
Earnings from Cont. Ops Margin %	21.0%	14.9%	11.1%	11.9%	9.1%	(15.9%)
Net Income Margin %	21.0%	14.9%	11.4%	11.9%	9.1%	(15.9%)
Asset Turnover						
Total Asset Turnover	1.3x	1.1x	0.9x	0.9x	1.1x	0.6x
Fixed Asset Turnover	3.0x	2.7x	2.1x	2.0x	2.5x	1.3x
Accounts Receivable Turnover	18.1x	11.2x	9.2x	9.7x	11.9x	5.3x
Inventory Turnover	5.9x	5.0x	4.4x	4.3x	4.7x	3.1x
Short Term Liquidity						
Current Ratio	4.1x	1.9x	2.3x	2.3x	2.2x	2.4x
Quick Ratio	2.8x	1.2x	1.5x	1.3x	1.3x	1.5x
Avg. Days Sales Out.	20.3	32.6	39.7	37.7	30.7	68.9
Avg. Days Inventory Out.	62.3	73.5	83.7	85.4	77.7	117.1
Avg. Days Payable Out.	20.6	36.0	44.5	40.4	28.9	60.1
Avg. Cash Conversion Cycle	62.0	70.0	78.8	82.8	79.4	125.9
Long Term Solvency						
Total Debt/Equity	40.3%	56.3%	42.3%	41.4%	92.1%	97.6%
Total Debt/Capital	28.4%	34.0%	28.3%	28.3%	46.6%	48.1%
LT Debt/Equity	34.3%	37.2%	28.6%	29.5%	70.0%	79.0%
LT Debt/Capital	24.2%	22.4%	19.2%	20.1%	35.4%	39.0%
Total Liabilities/Total Assets	41.4%	55.8%	47.9%	45.6%	59.7%	60.1%

Stock Quote (USD)

Last (Delayed Quote)	8.44	Market Cap (mm)	8,505.0
Open	8.44	Shares Out. (mm)	1,007.7
Previous Close	8.44	Float %	17.60%
Change	0.06	Shares Sold Short (mm)	-
Change %	0.70%	Dividend Yield %	-
Day High/Day Low	-/-	Diluted EPS Excl. Extra Items	-2.08
52 wk High/52 wk Low	8.80/ 2.40	P/Diluted EPS Before Extra	NM
Volume (mm)	0.0025	Beta	1.79
Avg. Vol - 3 mo (mm)	0.01		

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EXPLANATORY NOTE

Our forecasts and assumptions are based on company's financial and operational results, industry's statistics and trends, analysis of country of primary business and most important events, which may have influence on company's activity. Expert's opinion plays key role in forecasts and assumptions. In our reports, You can find short-, medium- and long-term forecasts. Short-term means up to **3 months**. Mid-term means up to **12 months**. Long-term means up to **36 months**.

Meaning of abbreviation used in our reports:

US – United States

USD, \$, US dollar – United States Dollar

Ruble, RR – Russia's National Currency

GDP – Gross Domestic Product

EURO, EUR, €- The official currency of 16 of the 27 Member States of the European Union.

Tenge, KZT – Kazakhstan's National Currency

EEK, Kron – Estonia's National Currency

Litas, LTL – Lithuania's National Currency

Lats, LVL – Latvia's National Currency

GBP – Great Britain Pound Sterling

LSE – London Stock Exchange **RTS** – Russian Trading System **AIM** – Alternative Investment Market

SHARE PRICE VALUATION AND TARGET PRICE ESTIMATES

Our share price estimation is based mainly on historical analysis of share price performance on stock exchange, future cash flows estimates, fair value estimates and general macroeconomical trends. When analyzing we take into account Company's competitive position, financial condition and important events that may significantly affect business activity and therefore share price of the Company. All these factors are calculated from mid-term point of view. We consider investors' behavior and possible speculative news to have significant impact on share price throughout mid-term and therefore sometimes our mid-term target price depends more on these factors rather than on business activity itself.

The main goal of estimation is to find out current share price status taking into account its possible dynamic for nearest 12 months. We estimate Company's 12 months target price and then compare it with current. Target price is a projected price level estimated by analyst. Our valuations of current share prices are based on differences between current and target prices. There are five possible valuations of current share price:

Much Overestimated	The share price is too high and does not reflect Company's business activity and growth possibilities. This usually means very high possibility of fast decrease of share price in mid-term.
Overestimated	The share price is high and does not reflect Company's business activity and growth possibilities. This usually means high possibility of significant decrease of share price in mid-term.
Adequate	The share price reflects business activity and Company's growth possibilities. The share price is expected to be relatively stable and no significant changes in mid-term are expected.
Underestimated	The share price is low and does not reflect Company's business activity and growth possibilities. This usually means high possibility of significant increase of share price in mid-term.
Much Underestimated	The share price is very low and does not reflect Company's business activity and growth possibilities. This usually means very high possibility of fast increase of share price in mid-term.

BBA INVESTMENT RATING

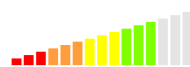
BBA Investment Rating shows our opinion on Company's investment attractiveness. The stronger rating is, the higher potential reward is expected and vice versa. Unlike 12 months target price, BBA Investment Rating reflects several years trend. We also take into account Company's growth possibilities and business risk outlooks, when estimating BBA Investment Rating. Company with high risk and weak growth chances is definitely less attractive for investment than Company with low risk and high growth chances.

One of the most important factors that affect Investment Rating is current share price valuation. If share's market price is significantly above our fair value estimate, it will receive low rating, no matter how strong we consider the business is. This is the most important rule, since investor is not interested in overpaying the shares. The goal is to buy cheaper and sell with a higher price. This means that even if Company has no growth chances but its share price is underestimated, it can still receive a good rating. Since the market prices change very often, our investment ratings change as well. However, the outlook and fair value usually remains the same and changes in ratings reflect only changes of price status. For example, the market share price was 20 USD, when the company received high rating, but then it increased to 30 USD while business activity and expectations remained the same. In this case, the rating will go down. Company receives one of the five possible ratings:



very high rating

In our opinion, investments in this Company have relatively low risk level and extremely high reward



high rating

In our opinion, investments in this Company are likely to provide significant reward while risk level is acceptable



medium rating

In our opinion, investments in this Company may not provide reward, although no big losses are expected



low rating

In our opinion, investments in this Company are risky and may end with losses



very low rating

In our opinion, investments in this Company are too risky and are likely to end with big losses

Although BBA Investment Rating is similar to our "current share price valuation model" (because it is much dependant on it), it still has important differences that should be mentioned. First of all, our share price valuation (as well as target price) reflects most possible share price dynamic in the nearest 12 months only, while BBA Investment Rating includes forecast for several years. Secondly, BBA Investment Rating better describes the investment attractiveness as it takes into account more factors than share price valuation model (for example business risk, number of trades, long-term growth possibilities and other).

One of the most important things is that BBA Investment Rating unites all our estimates, while paying a special attention to the role of each estimate. Unlike target price, an investment rating provides investor with complete information on share's investment attractiveness.

Target price for 12 months provides investor with outlook for the nearest 12 months. However, stocks can grow after the end of 12 months' period as well. If investor uses 12 months' target price only, then he or she is not able to see the full potential of such companies. We consider investors' behavior and possible speculative news to have less impact on share price throughout long-term and usually we do not take into account these factors when giving investment rating to a certain Company.

Our recommendation is to pay more attention to share price status if investor intends to sell it within the nearest 12 months and to consider BBA Investment Rating as well if investor is also interested in long-term potential of the Company.

GROWTH POSSIBILITY ESTIMATES

We estimate Company's long-term growth possibility using Baltic Business Analysis "growth estimation model". Key factors taken into account when analyzing:

- Commodity prices and demand
- Competitive position on market
- Management's strength
- Relations with government and political factors
- Financial position of the Company
- Inflation and currency exchange rate
- Technological factors
- Business environment and social factors

Mentioned factors have different influence on each company. The role of certain factor depends on industry, country and company's business activity and therefore is different for each company. However, our "growth estimation model" allows to calculate the most possible trends of Company's long-term performance based on average results taking into individual role and meaning of each factor. Although, we usually give no long-term share price outlooks, Company' long-term growth possibilities are often close to share price long-term growth possibilities if current share price is adequate. In our opinion, share price's long-term dynamic reflects Company's business activity better than short-term dynamic, which may be affected by speculative news or misunderstandings. There are five possible trends:

Very High	Business activity of the Company generates or is going to generate significant positive cash flows or earnings, which in long-term are expected to increase at significantly faster rates than the overall economy. The Company has very profitable reinvestment opportunities for its own retained earnings. The revenues of the Company are expected to grow significantly faster compared to its competitors. "High Growth" Company's performance is usually better compared to the whole industry and therefore the market share of such companies is expected to increase significantly.
High	Business activity of the Company generates or is going to generate positive cash flows or earnings, which are expected to increase in long-term. The Company has profitable reinvestment opportunities for its own retained earnings. The revenues of the company are expected to grow but some competitors may outperform Company's results. "Growth" Company's market share can sometimes increase, especially when the Company operates in stable or slightly growing market.
No Growth	Business activity of the Company usually generates positive cash flows of earnings, which in long-term are not expected to increase significantly. The Company has few or no reinvestment opportunities for its own retained earnings. The revenues of the company are stable but slight change in both directions is still possible because of overall industry trends and macroeconomical factors.
Decline	Business activity of the Company does not generate or is not going to generate positive cash flows or earnings. Such Company usually reports losses, which increase in long-term. The Company has absolutely no profitable reinvestment opportunities and as a result, its shareholders value is decreasing in long-term. The revenues of the Company are expected to decrease, though they may remain stable while expenses grow higher. "Decline" Company's performance is usually worse compared to the whole industry and therefore the Company loses its market share. However, in some rare cases, such Company can keep or even increase its share under condition that the market is falling.
High Decline	Business activity of the Company has not generated positive cash flows or earnings for some period. The reported losses are likely to increase fast in long-term. Its shareholders value is rapidly decreasing and there is usually no funding possible. The Revenues of the Company are expected to rapidly decrease. "High Decline" Company's performance goes far behind the industry even in terms of market decrease. As a result, such Company loses its market share. It should be noticed that such Company is close to default and there are few chances of surviving.

RISK ESTIMATES

There will always be uncertainty in every business; the level of uncertainty present is called risk. We estimate short-, mid-, and long-term Company's risk using Baltic Business Analysis "risk estimation model". The model includes:

- **Financial risk** Financial risk includes leverage, ability to generate or attract cash, interest rates, amounts payable and receivable, capital and currency risks.
- **Market risk** Commodity price and demand risk, level of competition, consumers' behavior, specific industry risks.
- **Management risk** Decision of management which can influence company's performance, incorrect estimation of company's possibilities
- **Governmental risk** Possible changes in taxes and legislation. Bureaucracy level and corruption. In some rare cases, governmental attempts to prevent expanding of Company or even the whole industry.
- **Technological risk** Outdated equipment, technological progress, price and supply of equipment, new approaches and other factors.

There are five possible risk levels:

Very High	Company's business activity is likely to be seriously affected by event or events and the result can be unpredictable. Very high risk usually indicates big problems and reflects very negative expectations.
High	Company's business activity may be affected by event or events and the results may be unpredictable. High risk usually indicates significant problems and reflects negative expectations.
Medium	Company's business activity may be affected by event or events but no serious consequences are expected. Medium risk usually indicates similar to industry's average condition of the Company.
Low	Company's business activity has low chances of been affected by event or events and no significant consequences are expected. Low risk usually indicates stability and good competitive position of the Company.
Very Low	Company's business activity is not likely to be affected by event or events with negative consequences. Very low risk usually indicates strong advantage over competitors and promising future

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THE COMPANY

INDUSTRY: MINING AND METALS
COUNTRY OF PRIMARY BUSINESS: RUSSIA



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