Mechel OAO
Form 20-F
April 28, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-32328

MECHEL OAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation

(Address of principal executive offices)

Alexey Lukashov, tel.: +7-495-221-8888, e-mail: alexey.lukashov@mechel.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON AMERICAN DEPOSITARY SHARES, EACH COMMON ADS REPRESENTING ONE COMMON SHARE	NEW YORK STOCK EXCHANGE
COMMON SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE(1)
PREFERRED AMERICAN DEPOSITARY SHARES, EACH PREFERRED ADS REPRESENTING ONE-HALF OF A PREFERRED SHARE	NEW YORK STOCK EXCHANGE
PREFERRED SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE(2)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

416,270,745 common shares, of which 92,133,558 shares are in the form of common ADSs as of March 31, 2015

138,756,915 preferred shares (including 55,502,766 shares held by Skyblock Limited, a wholly-owned subsidiary of Mechel), of which 22,120,481 shares are in the form of preferred ADSs as of March 31, 2015

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board ¨	Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

(1) Listed, not for trading or quotation purposes, but only in connection with the registration of common ADSs pursuant to the requirements of the Securities and Exchange Commission.
(2) Listed, not for trading or quotation purposes, but only in connection with the registration of preferred ADSs pursuant to the requirements of the Securities and Exchange Commission.

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Unless the context otherwise requires, references to Mechel refer to Mechel OAO, and references to our group, we, u
or our refer to Mechel OAO together with its subsidiaries.

Our business consists of three segments: mining, steel and power. References in this document to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted. References in this document to our sales or our total sales are to third-party sales and do not include intra-group sales, unless otherwise noted.

For the purposes of calculating certain market share data, we have included businesses that are currently part of our group that may not have been part of our group during the period for which such market share data is presented.

References to U.S. dollars, $ or cents are to the currency of the United States, references to rubles or RUR are to currency of the Russian Federation and references to euro or are to the currency of the member states of the European Union that participate in the European Monetary Union.

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The term tonne as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds. The term short ton is also used in this document. A short ton is equal to 907 kilograms or 2,000 pounds.

Certain amounts that appear in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables or in the text may not be an arithmetic aggregation of the figures that precede them.

CIS means the Commonwealth of Independent States, its member states being Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The following table sets forth by segment the official names and location of our key subsidiaries and their names as used in this document:

Name as Used in This Document	Official Name	Location
Mining Segment		
Mechel Mining	Mechel Mining OAO	Russia, Moscow
Southern Kuzbass Coal Company	Southern Kuzbass Coal Company OAO	Russia, Kemerovo region
Tomusinsky Open Pit	Tomusinsky Open Pit Mine OAO	Russia, Kemerovo region
Yakutugol	Yakutugol Holding Company OAO	Russia, Sakha Republic
Elgaugol	Elgaugol OOO	Russia, Sakha Republic
Bluestone or Bluestone companies(1)	Bluestone Industries Inc., Dynamic Energy Inc., JCJ Coal Group LLC and other subsidiaries carrying out the Bluestone business	United States, West Virginia
Korshunov Mining Plant	Korshunov Mining Plant OAO	Russia, Irkutsk region
Moscow Coke and Gas Plant	Moscow Coke and Gas Plant OAO	Russia, Moscow region
Mechel Coke	Mechel Coke OOO	Russia, Chelyabinsk region
Port Posiet	Port Posiet OAO	Russia, Primorsk Krai
Port Temryuk	Port Mechel Temryuk OOO	Russia, Krasnodar Krai
Steel Segment		
Chelyabinsk Metallurgical Plant	Chelyabinsk Metallurgical Plant OAO	Russia, Chelyabinsk region
Izhstal	Izhstal OAO	Russia, Republic of Udmurtia
Urals Stampings Plant	Urals Stampings Plant OAO	Russia, Chelyabinsk region
Beloretsk Metallurgical Plant	Beloretsk Metallurgical Plant OAO	Russia, Republic of Bashkortostan
Vyartsilya Metal Products Plant	Vyartsilya Metal Products Plant ZAO	Russia, Republic of Karelia
Mechel Nemunas	Mechel Nemunas UAB	Lithuania
Donetsk Electrometallurgical Plant	Donetsk Electrometallurgical Plant PJSC	Ukraine, Donetsk region
Bratsk Ferroalloy Plant(2)	Bratsk Ferroalloy Plant OOO	Russia, Irkutsk region
Port Kambarka	Port Kambarka OAO	Russia, Republic of Udmurtia
Power Segment		
Southern Kuzbass Power Plant		Russia, Kemerovo region

Southern Kuzbass Power Plant
OAO

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Name as Used in This Document	Official Name	Location
Kuzbass Power Sales Company	Kuzbass Power Sales Company OAO	Russia, Kemerovo region
Mechel Energo	Mechel Energo OOO	Russia, Moscow
Marketing and Distribution		
Mechel Carbon	Mechel Carbon AG	Switzerland, Baar
Mechel Carbon Singapore	Mechel Carbon Singapore Pte. Ltd	Singapore
Mechel Trading	Mechel Trading AG	Switzerland, Baar
Mechel Service Global	Mechel Service Global B.V.	Netherlands
Mechel Service	Mechel Service OOO	Russia, Moscow
Other		
Mecheltrans	Mecheltrans OOO	Russia, Moscow

(1) We disposed of Bluestone in February 2015. See Item 3. Key Information Recent Developments Disposal of Bluestone.

(2) In 2014, Bratsk Ferroalloy Plant was transferred to the steel segment. The data for prior periods included herein was restated accordingly to account for this subsidiary in the steel segment.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this document may constitute forward-looking statements, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words believe, expect, anticipate, intend, estimate, forecast, project, will, may, should and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, Item 3. Key Information Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, and include statements regarding:

- strategies, outlook and growth prospects;
- the ability to maintain sufficient cash and other liquid resources to meet our operating and debt service requirements, our ability to comply with the covenants in our financing agreements and our ability to achieve a satisfactory outcome in our ongoing debt restructuring negotiations with our lenders;
- the impact of competition;
- costs of our acquisitions and ability to realize expected synergies and other benefits;
- capital expenditures;
- demand for our products;
- economic outlook and industry trends;
- transactions with related parties;
- regulatory compliance;
- developments in our markets;
- future plans and potential for future growth;

- the impact of regulatory initiatives; and

- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. See Item 3. Key Information Risk Factors for a discussion of important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements.

Except to the extent required by law, neither we, nor any of our agents, employees or advisers intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained or incorporated by reference in this document.

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PART I

Item 1. ***Identity of Directors, Senior Management and Advisers***

Not applicable.

Item 2. ***Offer Statistics and Expected Timetable***

Not applicable.

Item 3. ***Key Information***

Selected Financial Data

The financial data set forth below as of December 31, 2014, 2013, 2012, 2011 and 2010, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**).

Our results of operations for the periods presented are affected by acquisitions and disposals. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods after their respective dates of acquisition. The financial data below are retrospectively adjusted for the effect from discontinued operations. See note 1(a) to the consolidated financial statements. The financial data below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and Item 5. Operating and Financial Review and Prospects.

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(In thousands of U.S. dollars, except per share data)				
Consolidated statements of operations and comprehensive income data:					
Revenue, net	6,405,767	8,505,931	10,753,513	11,695,390	9,148,905
Cost of goods sold	(4,031,657)	(5,845,752)	(7,435,537)	(7,615,411)	(5,716,256)
Gross profit	2,374,110	2,660,179	3,317,976	4,079,979	3,432,649
Selling, distribution and operating expenses	(2,247,682)	(3,316,936)	(3,915,572)	(2,267,187)	(1,941,228)
Operating income (loss)	126,428	(656,757)	(597,596)	1,812,792	1,491,421
Other income and (expense), net	(3,196,290)	(969,021)	(438,463)	(667,101)	(508,387)
(Loss) income from continuing operations, before income tax	(3,069,862)	(1,625,778)	(1,036,059)	1,145,691	983,034
Income tax benefit (expense)	183,908	(79,092)	(242,601)	(362,756)	(225,071)
Net (loss) income from continuing operations	(2,885,954)	(1,704,870)	(1,278,660)	782,935	757,963
(Loss) income from discontinued operations, net of income tax	(1,473,780)	(1,218,097)	(386,225)	20,510	(65,989)

Net (loss) income	(4,359,734)	(2,922,967)	(1,664,885)	803,447	691,974
Less: Net loss (income) attributable to non-controlling interests	24,308	(5,047)	317	(75,562)	(34,761)
Net (loss) income attributable to shareholders of Mechel OAO	(4,335,426)	(2,928,014)	(1,664,568)	727,885	657,213

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands of U.S. dollars, except per share data)				
Less: Dividends on preferred shares	(124)	(127)	(79,056)	(78,281)	(8,780)
Net (loss) income attributable to common shareholders of Mechel OAO	(4,335,550)	(2,928,141)	(1,743,624)	649,604	648,433
Net (loss) income	(4,359,734)	(2,922,967)	(1,664,885)	803,447	691,974
Currency translation adjustment	923,929	(96,848)	70,893	(170,794)	(26,218)
Transfer of currency translation adjustment due to disposal of companies		340,014			
Change in pension benefit obligation	(21,889)	8,244	(17,778)	(7,160)	(9,466)
Adjustment of available-for-sale securities	1,293	2,171	(300)	(2,245)	4,838
Comprehensive (loss) income	(3,456,401)	(2,669,386)	(1,612,070)	623,248	661,128
Less comprehensive loss (income) attributable to non-controlling interests	140,957	20,704	(22,851)	(50,527)	(32,498)
Comprehensive (loss) income attributable to shareholders of Mechel OAO	(3,315,444)	(2,648,682)	(1,634,921)	572,721	628,630
(Loss) earnings per share from continuing operations	(6.86)	(4.11)	(3.32)	1.51	1.72
(Loss) earnings per share effect from discontinued operations	(3.56)	(2.92)	(0.87)	0.05	(0.16)
Net (loss) income per share	(10.42)	(7.03)	(4.19)	1.56	1.56
Cash dividends per common share			0.24	0.31	0.03
Cash dividends per preferred share			0.95	0.94	0.11
Weighted average number shares outstanding	416,270,745	416,270,745	416,270,745	416,270,745	416,270,745
Mining segment statements of operations and comprehensive income data[(1)]:					
Revenue, net	2,639,891	3,144,463	3,771,496	4,575,468	3,369,548
Cost of goods sold	(1,346,813)	(1,627,622)	(1,866,235)	(1,948,614)	(1,482,345)
Gross profit	1,293,078	1,516,841	1,905,261	2,626,854	1,887,203
Selling, distribution and operating expenses	(1,229,396)	(1,304,946)	(1,178,696)	(1,041,758)	(798,107)

Operating income	63,682	211,895	726,565	1,585,096	1,089,096
Steel segment statements of operations and comprehensive income data[1]:					
Revenue, net	3,857,202	5,371,942	7,114,338	7,539,679	6,077,878
Cost of goods sold	(3,057,022)	(4,531,438)	(6,055,146)	(6,364,072)	(4,832,179)
Gross profit	800,180	840,504	1,059,192	1,175,607	1,245,699
Selling, distribution and operating expenses	(758,060)	(1,693,563)	(2,462,247)	(945,189)	(862,994)
Operating income (loss)	42,120	(853,059)	(1,403,055)	230,418	382,705

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands of U.S. dollars, except per share data)				
Power segment statements of operations and comprehensive income data[1]:					
Revenue, net	1,031,921	1,190,206	1,185,776	1,168,434	992,458
Cost of goods sold	(763,677)	(884,423)	(879,833)	(860,598)	(699,632)
Gross profit	268,244	305,783	305,943	307,836	292,826
Selling, distribution and operating expenses	(260,226)	(318,427)	(274,629)	(280,240)	(252,282)
Operating income (loss)	8,018	(12,644)	31,314	27,596	40,544
Consolidated balance sheet data (at period end):					
Total assets	6,713,490	13,834,510	17,695,303	19,309,799	15,778,164
Equity attributable to shareholders of Mechel OAO	(2,798,075)	517,475	3,177,381	4,990,764	4,642,825
Equity attributable to non-controlling interests	153,404	294,345	362,276	374,562	308,186
Long-term debt, net of current portion	166,532	7,513,277	7,910,863	6,683,731	5,222,993
Consolidated cash flows data:					
Net cash provided by (used in) operating activities	744,627	326,570	1,310,596	882,892	(147,330)
Net cash used in investing activities	(472,296)	(179,589)	(839,137)	(2,618,232)	(1,120,406)
Net cash (used in) provided by financing activities	(438,489)	(162,071)	(792,006)	2,079,034	1,210,126
Non-U.S. GAAP measures[2]:					
Consolidated Adjusted EBITDA	708,692	732,046	1,450,112	2,182,599	1,839,464
Mining Segment Adjusted EBITDA	338,116	499,527	997,808	1,811,299	1,300,520
Steel Segment Adjusted EBITDA	332,623	202,398	363,534	367,810	505,657
Power Segment Adjusted EBITDA	25,345	33,070	41,189	35,505	54,211

(1) Segment revenues and cost of goods sold include intersegment sales.

(2) Adjusted EBITDA represents net income before depreciation, depletion and amortization, foreign exchange loss/(gain), interest expense, interest income, net result on the disposal of non-current assets, impairment of long-lived assets and goodwill and provision for the balances due from related parties, net (loss) income from discontinued operations, net of income taxes, net (loss) income on the disposal of all or part of the interest in any subsidiary, amount attributable to non-controlling interests, income taxes and other one-off items.

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Reconciliation of Adjusted EBITDA to net (loss) income attributable to shareholders of Mechel OAO is as follows for the periods indicated:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands of U.S. dollars)				
Consolidated Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(4,335,426)	(2,928,014)	(1,664,568)	727,885	657,213
Add:					
Depreciation, depletion and amortization	370,544	425,282	421,860	360,861	338,009
Foreign exchange loss (gain)	2,396,123	164,768	(107,541)	141,961	(7,210)
Interest expense	793,228	740,601	649,760	546,789	532,032
Interest income	(2,398)	(7,330)	(70,178)	(16,394)	(16,663)
Net result on the disposal of non-current assets, impairment of long-lived assets and goodwill and provision for the balances due from related parties	174,011	946,058	1,511,185	3,689	10,262
Loss (income) from discontinued operations, net of income taxes	1,473,780	1,218,097	386,225	(20,510)	65,989
Net result on the disposal of subsidiaries		88,445	81,085		
Amount attributable to non-controlling interests	(24,308)	5,047	(317)	75,562	34,761
Income taxes	(183,908)	79,092	242,601	362,756	225,071
Other one-off items	47,046				
Consolidated Adjusted EBITDA	708,692	732,046	1,450,112	2,182,599	1,839,464
Mining Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(3,315,824)	(369,014)	356,561	1,012,598	657,753
Add:					
Depreciation, depletion and amortization	228,628	260,233	236,023	218,322	205,605
Foreign exchange loss (gain)	1,728,376	109,268	(65,873)	60,758	(13,394)
Interest expense	388,254	380,124	275,964	307,596	323,825
Interest income	(19,933)	(47,267)	(98,157)	(128,981)	(115,780)
Net result on the disposal of non-current assets, impairment of long-lived assets and goodwill and provision for the balances due from related parties	9,194	26,056	5,164	7,726	8,236
Loss (income) from discontinued operations, net of income taxes	1,480,349	35,777	33,548	(45,349)	(2,532)
Net result on the disposal of subsidiaries					
	(23,456)	19,142	45,976	80,050	43,130

Amount attributable to non-controlling interests					
Income taxes	(166,491)	85,208	208,602	298,579	193,680
Other one-off items	29,019				
Mining Segment Adjusted EBITDA	338,116	499,527	997,808	1,811,299	1,300,520

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	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands of U.S. dollars)				
Steel Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(1,002,211)	(2,465,035)	(1,909,850)	(170,821)	69,394
Add:					
Depreciation, depletion and amortization	133,552	155,539	175,175	130,676	117,949
Foreign exchange loss (gain)	675,595	55,591	(41,670)	81,373	6,211
Interest expense	402,729	372,539	397,524	343,177	322,834
Interest income	(10,040)	(9,797)	(20,084)	(8,775)	(34,922)
Net result on the disposal of non-current assets, impairment of long-lived assets and goodwill and provision for the balances due from related parties	156,011	878,679	1,507,470	866	2,927
(Income) loss from discontinued operations, net of income taxes	(21,635)	1,158,228	191,639	(55,910)	7,003
Net result on the disposal of subsidiaries		91,178	81,085		
Amount attributable to non-controlling interests	(4,089)	(17,502)	(49,178)	(10,398)	(13,113)
Income taxes	(14,158)	(17,024)	31,423	57,622	27,374
Other one-off items	16,869				
Steel Segment Adjusted EBITDA	332,623	202,398	363,534	367,810	505,657
Power Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(29,997)	(91,019)	(158,856)	(81,877)	(49,009)
Add:					
Depreciation, depletion and amortization	8,364	9,510	10,662	11,863	14,456
Foreign exchange (gain) loss	(7,848)	(91)	1	(169)	(28)
Interest expense	31,062	37,736	24,372	17,584	19,550
Interest income	(1,242)	(64)	(37)	(207)	(138)
Net result on the disposal of non-current assets, impairment of long-lived assets and goodwill and provision for the balances due from related parties	8,803	41,323	(1,452)	(4,903)	(900)
Loss from discontinued operations, net of income taxes	15,066	24,092	161,038	80,749	61,518
Net result on the disposal of subsidiaries		(2,732)			
Amount attributable to non-controlling interests	3,238	3,407	2,885	5,910	4,745
Income taxes	(3,259)	10,908	2,576	6,555	4,017
Other one-off items	1,158				
Power Segment Adjusted EBITDA	25,345	33,070	41,189	35,505	54,211

Adjusted EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. Adjusted EBITDA is not a measure of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

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Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of financing income and costs, which are significant and could further increase if we incur more debt, on our operating performance.

- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance.

- Adjusted EBITDA does not reflect the impact of depreciation, depletion and amortization on our operating performance. The assets of our businesses which are being depreciated, depleted and/or amortized (including, for example, our mineral reserves) will have to be replaced in the future and such depreciation, depletion and amortization expense may approximate the cost to replace these assets in the future. By excluding such expense from Adjusted EBITDA, Adjusted EBITDA does not reflect our future cash requirements for such replacements.

- Adjusted EBITDA does not reflect the impact of foreign exchange gains and losses, which may recur.

- Adjusted EBITDA does not reflect the impact of the net result on the disposal of non-current assets on our operating performance, which may recur.

- Adjusted EBITDA does not reflect the impact of impairment of long-lived assets and goodwill and provision for the balances due from related parties, which may recur.

- Adjusted EBITDA does not reflect the impact of net (loss) income from discontinued operations.

- Adjusted EBITDA does not reflect the impact of net (loss) income on the disposal of all or part of the interest in any subsidiary.

- Adjusted EBITDA does not reflect the impact of amounts attributable to non-controlling interests on our operating performance.

- Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using Adjusted EBITDA only supplementally. See our consolidated statements of operations and comprehensive income (loss) and consolidated statements of cash flows included elsewhere in this document.

Exchange Rates

The following tables show, for the periods indicated, certain information regarding the official exchange rate between the ruble and the U.S. dollar, based on data published by the Central Bank of the Russian Federation (the **CBR**).

These rates may differ from the actual rates used in preparation of our financial statements and other financial information provided herein.

Year Ended December 31,	**Rubles per U.S. Dollar**			
	High	**Low**	**Average[(1)]**	**Period End**
2014	67.79	32.66	38.42	56.26
2013	33.47	29.93	31.85	32.73
2012	34.04	28.95	31.09	30.37
2011	32.68	27.26	29.39	32.20
2010	31.78	28.93	30.37	30.48

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

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	Rubles per U.S. Dollar	
	High	Low
March 2015	62.68	56.43
February 2015	69.66	60.71
January 2015	68.93	56.24
December 2014	67.79	49.32
November 2014	49.32	41.96
October 2014	43.39	39.38

The exchange rate between the ruble and the U.S. dollar on April 28, 2015 was 51.47 rubles per one U.S. dollar.

Due to the significant volatility of the ruble-U.S. dollar exchange rate in 2014, for each subsidiary whose functional currency was the ruble, amounts for the first nine months of 2014 and for the fourth quarter of 2014 were translated using the respective average rates for such periods, or 35.3878 rubles and 47.4243 rubles per one U.S. dollar, respectively. The translated amounts for the first nine months of 2014 and for the fourth quarter of 2014 were combined for the annual totals.

No representation is made that the ruble or U.S. dollar amounts in this document could have been or can be converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all.

Recent Developments

Ongoing debt restructuring negotiations with our lenders

As a result of the continued steep decline in market prices for our products throughout 2013-2014, we have failed to comply with a number of financial and non-financial covenants in various loan agreements. In summer 2014, we entered into negotiations with Russian state-controlled banks and our international lenders on the restructuring of our debt obligations. Nevertheless, worsening market conditions together with the absence of stable macroeconomic forecasts prevented us from reaching any agreement with the banks before the loans became due and payable, which resulted in a number of defaults that we were not able to cure. As a result, as of December 31, 2014, we reclassified a substantial share of our long-term debt to short-term debt. Subsequent to December 31, 2014, partially as a result of the depreciation of the ruble against the U.S. dollar and the slight recovery of our markets, we have improved our liquidity position, amended and extended the maturities of several credit facilities and lease arrangements, and resumed debt restructuring negotiations with state-owned and international banks. On January 30, 2015, we engaged RCF (Russia) B.V. (**Rothschild**) to elaborate and present a restructuring proposal to our key creditors. Negotiations with the creditors are ongoing. We, together with our adviser, have presented a proposal to our key creditors for the restructuring of our debts. See also Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Outlook for 2015.

Our operations and profitability depend on market prices and demand for our products, which are out of our control and may continue to deteriorate due to general market conditions and other factors including international sanctions against Russia and Russian individuals and/or businesses. See Item 3. Key Information Risk Factors which describes certain risks to our business, including risks relating to our financial condition and financial reporting, risks relating to our business and industry, risks relating to our shares and the trading market and risks relating to the Russian Federation (including economic risks, political and social risks and legal risks and uncertainties). In particular, see Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We face pressure on our liquidity, negatively influencing our working capital, which resulted from the lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks, Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding

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debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects, Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have a substantial amount of outstanding indebtedness with restrictive financial covenants, Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

Disposal of Bluestone

In February 2015, we disposed of 100% of shares in Mechel Bluestone Inc., the holding company of our coal assets in the United States, to a company owned by the Justice family. The disposal of Bluestone occurred in challenging conditions of extremely weak global demand for coal and coal mining assets. As a result of such weak demand, mining at Bluestone s open pit and underground mines was not profitable. Bluestone has been unprofitable since 2012.

The total consideration consists of: (1) an immediate cash payment of $5 million; (2) future royalty payments on coal mined and sold in the amount of $3.00 per short ton, capped at $150 million; (3) a portion of a sale price in case of any future sale of Bluestone and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closes within five or 10 years, respectively, of the sale to the Justice family; (4) removal of approximately $140 million of liabilities from the group s consolidated balance sheet; and (5) dismissal of several litigation proceedings which enabled us to avoid over $160 million worth of legal risks.

We concluded that the disposal of Bluestone companies met the criteria for discontinued operations and excluded the results of operations of Bluestone companies from continuing operations and reported them as discontinued operations for the period ended December 31, 2014 and prior periods. See note 4(c) to the consolidated financial statements.

Risk Factors

An investment in our shares and ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained in this document, before you decide to buy our shares or ADSs. If any of the following risks actually occurs, our business, financial condition, results of operations or prospects could be materially adversely affected. In that case, the value of our shares or ADSs could also decline and you could lose all or part of your investment.

Risks Relating to Our Financial Condition and Financial Reporting

There is substantial doubt about our ability to continue as a going concern.

As discussed in note 2 to our consolidated financial statements in Item 18. Financial Statements, because we have significant debt that we do not have the ability to repay without refinancing or restructuring, and our ability to do so is dependent upon continued negotiations with the banks, there is substantial doubt about our ability to continue as a going concern. We also note that we have been in non-compliance with financial and non-financial covenants in our major loan agreements. In addition, there was a default on payments of principal and interest to certain lenders and lessors. See We face pressure on our liquidity, negatively influencing our working capital, which resulted from the lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks, Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding

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debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects, We have a substantial amount of outstanding indebtedness with restrictive financial covenants and We have not fulfilled our payment obligations as well as certain other terms and conditions under several of the group s lease agreements and one of the respective lessors has required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects. As of December 31, 2014, one of our lenders requested accelerated repayment of amounts due under the respective loan agreements. The other lenders have not requested accelerated repayment of amounts due, but have the legal right to do so. In February 2015, one of our lessors requested accelerated repayment of amounts due under the respective lease agreements. Our restructuring plan includes asking our creditors to refinance and amend the terms and conditions of our existing debt agreements to extend grace periods and repayment periods beyond December 31, 2015 and align the servicing of our debt with the projected cash flows to be generated by the group in 2015 and beyond, are discussed in Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Outlook for 2015 and note 2 to our consolidated financial statements in Item 18. Financial Statements. Our future is dependent on our ability to refinance or restructure our indebtedness successfully or otherwise address these matters. If we fail to do so for any reason, we would not be able to continue as a going concern and could potentially be forced to seek relief under applicable bankruptcy or insolvency procedures, in which case our shares and ADSs would lose all or a substantial amount of their value. However, given management s plans as outlined in note 2 to our consolidated financial statements in Item 18. Financial Statements, our consolidated financial statements have been prepared on the basis that we will continue as a going concern entity, and no adjustments have been made in our consolidated financial statements to the carrying value of assets and/or liabilities relating to any potential impact of us not being able to refinance our debt obligations.

We face pressure on our liquidity, negatively influencing our working capital, which resulted from the lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks.

As a result of the economic downturn and a sharp decline in demand and prices for our products starting from August 2008 and continuing into the first half of 2009, as well as due to a substantial increase in our total indebtedness in 2007 and early 2008 which was incurred mostly for the acquisition of Yakutugol in 2007 and Oriel Resources in 2008, we experienced a liquidity shortage in late 2008 and early 2009. Since we had significant debt that we did not have the ability to repay without refinancing or restructuring, and our ability to do so was dependent upon cooperation from our lenders, there was substantial doubt as to our ability to continue as a going concern as of December 31, 2008. From late 2008 through 2009, we obtained significant loans from Russian state-owned banks, restructured and refinanced our credit facilities used to finance the acquisitions of Oriel Resources and Yakutugol and issued Russian ruble bonds. Our indebtedness increased during 2010 and 2011 due to financing of the substantial investment program of our subsidiaries (including the construction of the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant, the construction of the Elga rail line and development of the Elga coal deposit) and financing of the increased level of inventories, primarily, due to expansion of Mechel Service Global s business.

Starting from the second half of 2012 and gradually worsening during 2013 and into 2014, a second phase of economic and financial difficulties unfolded. This resulted in a further decline in demand and prices for our products and we experienced a renewed tightening of our liquidity in 2013. To alleviate the pressure on our liquidity, persisting since 2010, in 2013, we successfully refinanced and restructured a number of major loans mainly with Russian state-owned banks and issued Russian ruble bonds. Additionally, in December 2013, we restructured our $1.0 billion pre-export facilities with a syndicate of international and Russian banks.

In the first half of 2014, as a result of the economic slowdown both in the export and domestic markets and a sharp decline in demand and prices for our products, we experienced a shortage of liquidity and difficulties with refinancing of our debt; as a result, we failed to fulfill our payment obligations in connection with the servicing of the interest and the repayment of our debts. We held discussions with our creditors and applied for a

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standstill with respect to the payment of our financial obligations. From the second half of 2014, the markets for our main products began to recover, and the depreciation of the ruble contributed to an increase in our operating profit. We resumed making regular payments of current interest to the banks and are currently negotiating new repayment schedules as well as the restructuring of overdue interest and principal. Our primary objective in negotiating the debt refinancing and restructuring and resetting the financial covenants is to ensure a stable financial environment that would allow us to continue to pursue our financial strategy: lengthening the maturity profile of our debt portfolio and grace repayment periods across our most important credit facilities, which would help us endure the prolonged commodity price depression.

For the year ended December 31, 2014, we had an operating income of $126.4 million as compared to an operating loss of $656.8 million for the year ended December 31, 2013. Net cash provided by operating activities was $744.6 million for the year ended December 31, 2014 as compared to $326.6 million for the year ended December 31, 2013. As of December 31, 2014, our total indebtedness was $6,845.1 million, a decrease of $2,146.4 million from December 31, 2013. The short-term portion of our total indebtedness was $6,678.5 million as of December 31, 2014 as compared to $1,478.2 million as of December 31, 2013. The working capital deficit amounted to $7,291.3 million as of December 31, 2014 as compared to $768.8 million as of December 31, 2013. Cash and cash equivalents as of December 31, 2014 were $72.4 million as compared to $274.5 million as of December 31, 2013. Our total liabilities exceeded total assets by $2,644.7 million as of December 31, 2014.

As of December 31, 2014, we were in breach of certain financial and non-financial covenants in various loan agreements and defaulted on our loans. See Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects, We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments, Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness and Item 13. Defaults, Dividend Arrearages and Delinquencies.

In the absence of a significant and sustainable increase in the price levels and demand for our products, our plans for 2015 and beyond are conservatively based on continuing our restructuring and refinancing efforts of our loans with our creditors, improvement of the efficiency of our operations, decreasing production and delivery expenses, running down loss-making or non-core operations and selectively disposing of certain assets. However, no assurances can be made in relation to the above, and our operations and profitability depend on market prices and demand for our products which may continue to deteriorate due to general market conditions or other factors including international sanctions against Russia and Russian individuals or businesses. See Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects and Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

Our ability to refinance existing debt is limited due to difficult conditions on the financial markets and in the banking sector, together with sanctions on certain Russian banks preventing them from raising additional funds on the international markets. We have refinanced part of our debt portfolio with longer term debt, reduced the capital investment program and disposed of certain non-core or loss-making assets. See We have a substantial amount of outstanding indebtedness with restrictive financial covenants and We will require a significant amount of cash to fund our capital investment program. These measures, if successful, should reduce the risk of facing a liquidity shortage in the medium term as well as allow us to reduce our indebtedness over time.

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In October 2014, Moody s Investors Service downgraded our rating to Caa3 with negative outlook because of the increased risk of default under our credit facilities, high probability of a refinancing scenario and a weak coal market environment. Further, in December 2014, Moody s Investors Service added Ca-PD/LD to our rating due to litigation with VTB Bank JSC. See Item 8. Financial Information Litigation Debt litigation. In March 2015, following Mechel s request, Moody s Investors Service withdrew our corporate family rating of Caa3, probability of default rating of Ca-PD/LD and long-term national scale rating of Caa2.ru. Such changes in our rating may reduce our opportunities to raise necessary debt financing (including by accessing the debt capital markets), as well as potentially negatively impact the terms of such financing.

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodity prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors (including the imposition of further international sanctions against Russian companies or individuals), many of which are beyond our control, may adversely and materially affect our cash flow, liquidity and working capital position and may result in an increase in our working capital deficit and in our inability to meet our obligations as they fall due. If such a situation were to occur, we may be required to further refinance our existing debt and/or to seek additional capital. There is no guarantee that we would be successful in refinancing our debt or in raising additional capital (particularly if we fall under international sanctions preventing us from accessing foreign capital markets), or that we would be able to do so on a timely basis or on terms which are acceptable to us. Even if we were successful, the terms of such refinancing or new capital may be detrimental to holders of ADSs and shares including due to a dilution of their interest. Any such deterioration, affect or failure could have a material adverse effect on our business, financial condition, results of operations and the trading price of our ADSs and shares.

If the significant economic slowdown and international sanctions were to continue, we could face a renewed liquidity shortage and again breach our restrictive covenants, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Most of the loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings, covenants and events of default. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, disposal of assets, corporate restructurings, investments into certain of our subsidiaries and others, require prior notice to or consent from the respective lenders. We have restrictions on our ability to pay dividends, incur additional indebtedness and make capital expenditures, as well as expand through further acquisitions and use proceeds from certain disposals.

In recent years, we have been in breach of covenants in various loan agreements, but we received waivers, consents and covenant amendments from the relevant lenders for such breaches. As of December 31, 2014, we were not in compliance with the restrictive covenants in most of our credit facilities (including but not limited to financial ratios, such as the Net Borrowings to EBITDA ratio and the EBITDA to Net Interest Expense ratio) and failed to obtain waivers, consents and covenant amendments from the relevant lenders for such breaches, nor have we been able to refinance or alter such loan agreements. Further, following a request to our creditors for a standstill with respect to the payment of our financial obligations or a temporary reduction in servicing the loans which was not accepted, we missed the scheduled payments of interest and principal under most of our loan agreements, which as discussed below has led to cross-defaults under other agreements. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 5. Operating and Financial Review and Prospects Description of

Certain Indebtedness and Item 13. Defaults, Dividend Arrearages and Delinquencies.

Almost all of our credit facilities contain cross-default provisions which were triggered by our default under our other loan and credit facilities. A cross-default provision contemplates that a default on one loan with the principal amount above certain threshold would result in a default on other loans. None of our major lenders such as Russian state-controlled banks or international lenders has so far waived their rights in respect of or granted their consent to such breaches. The refusal of any one lender to grant or extend a waiver or amend the loan documentation, even if other lenders may have waived covenant defaults under the respective credit facilities, could result in substantially all of our indebtedness being accelerated. If our indebtedness is accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing, and we could lose our assets, including fixed assets and shares in our subsidiaries, if our lenders foreclose on their liens (which some have threatened to do), which would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares and ADSs.

Currently we continue to be in default under most of our credit facilities, and are negotiating with our lenders.

On October 29, 2014, due to our payment defaults and violation of cross-default provisions in our credit facilities with VTB Bank, VTB Bank notified us of its decision to accelerate the total outstanding amounts of principal and interest under such loan agreements, as well as impose penalties, in a total amount of 65.7 billion rubles. Such acceleration, in turn, gave our other creditors the right to trigger acceleration under their loan agreements. See Item 8. Financial Information Litigation Debt litigation and We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

Our ability to continue to comply with our financial and other loan covenants in the future and to continue to service and refinance our indebtedness will depend on our results of operations and our ability to generate cash in the future and attract new financing and refinance the existing indebtedness, which will depend on several factors, including lenders credit decisions, limitations on the ability of Russian companies to access international capital markets as a result of a tightening of international sanctions against Russian companies and individuals and general economic, financial, competitive, legislative and other factors that are beyond our control. We cannot assure you that any potential breach of financial and other covenants in our loan agreements, including defects in security, will not result in new demands from our lenders for acceleration of our loan repayment obligations or related litigation, including as a result of cross-defaults. If we fail to comply with our financial and other covenants contained in any of our loan agreements, including compliance with financial ratios and other covenants, or fail to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of any breaches of our loan agreements or amend our loan agreements, such failure would constitute an event of default under the relevant loan agreement and a cross-default under most of the others. Any event of default under our loan agreements could result in acceleration of repayment of principal and interest under the relevant loan agreement and, via cross-default provisions, under our other facilities, reduced opportunities for future borrowing, debt service obligations in excess of our ability to pay, liability for damages or inability to further develop our business and pursue our strategic objectives, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have a substantial amount of outstanding indebtedness with restrictive financial covenants.

We have a substantial amount of outstanding indebtedness, primarily consisting of debt we incurred in connection with the financing of our acquisitions of Yakutugol and Oriel Resources in 2007 and 2008, as well as debt we incurred to finance our investment program in recent years including the development of the Elga coal deposit and the universal rolling mill installation, and our working capital needs which have been significant in recent years due to the depressed demand and pricing for our main products. Most of this debt has restrictive financial covenants. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. As of December 31, 2014, our consolidated total debt, including capital lease obligations, was $7,118.9 million, of

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which $6,949.5 million was short-term debt (including $6,378.4 million with loan covenant violations, of which $4,297.5 million was long-term debt reclassified to short-term debt due to defaults and cross-defaults under our loan agreements). Our interest expense for the year ended December 31, 2014 was $793.2 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 50%+2 shares of Yakutugol, 50%+2 shares of Southern Kuzbass Coal Company, 20% of Chelyabinsk Metallurgical Plant, 25%+1 share of total shares of Beloretsk Metallurgical Plant, 55%+1 share of Korshunov Mining Plant, 62.5%+2 shares of Mechel Mining, 30%+1 share of Urals Stampings Plant, 25%+1 share of total shares of Izhstal, 49% of Elgaugol, 25% of registered capital of Mecheltrans and 100% of registered capital of Fincom-invest OOO as of December 31, 2014. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders. As of December 31, 2014, the carrying value of property, plant and equipment, inventory, accounts receivable and investments (bonds of third parties) pledged under our loan agreements amounted to $569.1 million. See note 14(i) to the consolidated financial statements.

Our ability to make payments on our indebtedness depends upon our operating performance, which is subject to general economic and market conditions, commodity prices, and financial, business and other factors (including the maintenance or extension of international sanctions against Russian companies and individuals), many of which we cannot control. If we do not generate sufficient cash flow from operations in order to meet our debt service obligations, we may have to undertake alternative financing plans to alleviate liquidity constraints, such as refinancing or restructuring our debt, reducing or delaying our capital expenditures or seeking additional capital.

The majority of our borrowings are from Russian banks, including state-controlled banks such as Gazprombank, Sberbank and VTB Bank, as well as from Russian ruble bonds which are mostly held by Russian institutions. It is possible that these sources of financing may not be available in the future in the amounts we may require or may be expensive and/or contain overly onerous terms, particularly in light of the international sanctions that have been imposed on Russian state banks. More recently, the economic slowdown in Russia as well as the events in Ukraine and Crimea has introduced additional uncertainty in the overall outlook for the ability of Russian banks to provide sufficient liquidity to Russian companies. In the current environment, if Russian banks and financial institutions are no longer able to continue to refinance our indebtedness or finance our working capital needs, we may not be able to diversify our funding sources and may default on our debt which would have a material adverse effect on our business, financial condition, results of operations and prospects. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs and Risks Relating to the Russian Federation Economic risks The Russian banking system is still developing, and another banking crisis or international sanctions could place severe liquidity constraints on our business.

Subject to market conditions, an improvement in our corporate ratings and the status of international sanctions against Russian companies and individuals, we may access the international debt capital markets in order to diversify funding sources, further extend the maturity profile of our debt portfolio and reduce refinancing risk. We cannot provide assurance that any refinancing or additional financing would be available on acceptable terms. This is reinforced by the existing uncertainty in the Russian and global economies, including concerns about sovereign debt in Europe and the United States. Any inability to satisfy our debt service obligations or to refinance debt on commercially reasonable terms could materially adversely affect our business, financial condition, results of operations and prospects.

Among other things, high levels of indebtedness, the restrictive financial covenants in our credit facilities and breaches thereof as well as default on our loans, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility to plan for, or react to, changes in the markets in which we compete; (3) disadvantage our group relative to our competitors with superior financial resources; (4) lead to a loss of assets pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions; (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends.

We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

Our future is dependent on our ability to refinance or restructure our indebtedness successfully. If we fail to do so for any reason, we might not be able to continue as a going concern and could be forced to seek relief under applicable bankruptcy procedures, in which case our shares and ADSs may lose all or substantial amount of their value. See There is substantial doubt about our ability to continue as a going concern.

Our creditors, including the Federal Tax Service of the Russian Federation, may file a bankruptcy petition with a court seeking to declare us insolvent if we are unable to make payments to our creditors in excess of 300,000 rubles within three months of such payments becoming due. In most cases, for such petition to be accepted, the outstanding indebtedness must be confirmed by a separate court decision or arbitral award that has already entered into force. However, under recent amendments to the Federal Law No. 127-FZ On Insolvency (Bankruptcy) dated October 26, 2002 (the **Bankruptcy Law**), financial (credit) organizations, which include our major creditors, may file a petition for bankruptcy without such separate court decision. In this case, the financial organization is required to notify the debtor and its creditors in writing at least 30 days prior to filing a petition for bankruptcy. Starting from July 1, 2015, the notification period shall be reduced to 15 days. On March 7, 2015, VTB Bank published a notification of its intention to initiate bankruptcy proceedings against us and is now entitled to file a bankruptcy petition with the court. On March 12, 2015, VTB Bank further informed our main creditors of its intention to proceed with such bankruptcy petition. On April 24, 2015, VTB Bank and VTB Capital Plc filed a claim with the High Court of Justice Queen s Bench Division Commercial Court in England seeking for injunctive relief under pre-export facility agreements with a syndicate of banks. See Item 8. Financial Information Litigation Debt litigation. We are currently in negotiations with VTB Bank and Gazprombank and have reached preliminary agreements contemplating, among other things, extension of the loan tenors, decrease in the interest rates, revision of the collateral requirements, and dismissal of all court proceedings upon the signing of the binding documentation. As of the date hereof, we have no information as to whether VTB Bank has exercised its right to file the bankruptcy petition pursuant to its notification. If VTB Bank or any other creditor initiates court proceedings seeking to declare us insolvent or if VTB Bank is granted with aforementioned preliminary injunctions, it could have a material adverse effect on our prospects and on the value of our shares and ADSs and may ultimately result in the inability of holders of our shares and ADSs to recover any of their investments.

The Bankruptcy Law is relatively new and still developing. It remains largely untested in the courts and may be subject to varying interpretations. While the Bankruptcy Law establishes the principle of adequate protection of creditors, debtors, shareholders and other stakeholders in bankruptcy, it often fails to provide instruments for such protection that are available in other jurisdictions with more developed bankruptcy procedures. Bankruptcy proceedings in Russia are often not conducted in the best interests of shareholders or creditors. In addition, Russian courts that conduct bankruptcy proceedings may be subject to a greater degree of political interference and may employ a more formalistic, and less commercially sophisticated, approach to rendering decisions than like court in other jurisdictions. Russian insolvency proceedings in the past have shown a bias towards liquidation and not rehabilitation or restructuring.

The Bankruptcy Law provides for the following order of priority for the satisfaction of creditor claims: (i) personal injury claims and moral damage claims; (ii) employment claims (wages and severance payments) and royalty claims under copyright agreements; and (iii) all other claims. The claims of secured creditors are satisfied in accordance with a special procedure, that is, out of the proceeds of sale of the pledged or mortgaged assets. Equity claims of shareholders or ADSs holders may be satisfied only if any assets remain after all creditors have been paid in full. Therefore, there is a risk that our shareholders and ADS holders may lose all or

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substantial part of their investment. This risk is even more significant for ADS holders whose status in the bankruptcy proceedings is unclear.

We have not fulfilled our payment obligations as well as certain other terms and conditions under several of the group s lease agreements and one of the respective lessors has required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects.

Some of our group companies have entered into various lease agreements with different leasing companies for the lease of excavators, bulldozers, dump trucks (BelAZ), open cars, locomotives, lift trucks, cranes, drilling rig systems, crushing stations and other equipment.

Each of the lease agreements has a certain payment schedule. Starting from the second quarter of 2014, we began to delay the regular payments under several of these lease agreements. According to the Civil Code of the Russian Federation, as amended (the **Civil Code**), and the Federal Law No. 164-FZ On Financial Leasing dated October 29, 1998 (as amended), a lessor is generally entitled to apply to a court for the early termination of a lease agreement if the lessee fails to make two consecutive payments under the lease agreement. The lessor is required to notify the lessee in writing and request fulfillment of its obligations under the lease agreement within a reasonable time before applying to the court.

The lease agreements we have entered into generally provide for a stricter procedure, whereby the lessor is also entitled to terminate the contract unilaterally, without applying to the court, by way of sending a notification to the lessee in case of non-payment within a specified period of time. The lessor is entitled to receive penalties in case of a delay in payment and early termination of the lease agreement due to the lessee s default. Upon termination of the lease agreement, the lessor is entitled to request the return of the leased equipment. If the lessee fails to return the equipment, the lessor is entitled to receive rental payments covering the time of the delay and compensation for damages if not covered by rental payments.

In particular, we failed to fulfill our payment (as well as certain other) obligations under the lease agreements with Sberbank Leasing ZAO. Between May and August 2014, we received payment demands from Sberbank Leasing ZAO, requiring us to settle the overdue amounts under the respective lease agreements. In September-October 2014, Sberbank Leasing ZAO filed lawsuits for the recovery of the overdue amounts under the lease agreements concluded with Korshunov Mining Plant, Mechel Materials, Yakutugol, Southern Kuzbass Coal Company and Metallurgshakhtspetsstroy. We filed counterclaims which were denied by the courts. In February 2015, Sberbank Leasing ZAO sent termination notices to the lessees under the respective lease agreements for the total amount of 4.2 billion rubles. According to such notices, unless the payments are made within 15 days from the date of the notice, the respective lease agreements shall be deemed terminated. The payments were not made, and in April 2015, Sberbank Leasing ZAO requested through the courts accelerated repayment of amounts due under the lease agreements as well as the return of the leased assets. See Item 8. Financial Information Litigation Debt litigation. We are continuing to use the leased assets in our operations and are negotiating a settlement with Sberbank Leasing ZAO in an effort to agree new payment schedules under the lease agreements.

In the event the leased equipment is returned to Sberbank Leasing ZAO, there is a risk that our operating activities (for the group companies that are lessees under the delinquent leases) will be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In 2014, we also failed to fulfill certain obligations under several of our lease agreements with VTB Leasing OJSC. However, in September 2014, we successfully restructured payment schedules under these agreements for a total surrender value of 10.3 billion rubles.

We will require a significant amount of cash to fund our capital investment program.

Our business requires maintenance capital expenditures in order to maintain production levels adequate to meet the demand for our products, as well as other capital expenditures to implement our business strategy. We spent $223.6 million during 2014 on our capital expenditures (including $40.2 million in maintenance capital expenditures). In planning for 2015, we followed our current investment policy focusing only on those items that are either close to completion or are of major importance for our operations. Our capital investment program currently contemplates capital spending of up to $359.8 million in 2015 (including up to $41.6 million in maintenance capital expenditures). The majority of these planned capital expenditures relate to the development of the Elga coal deposit and which are required to be made pursuant to the terms of the subsoil license. The Elga capital expenditures are financed from the project financing provided by State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) (**Vnesheconombank**) in April 2014. As of December 31, 2014, the total amount of financing received under this project financing amounted to $170.8 million. Further financing of the project is subject to the fulfillment of conditions precedent stipulated in the project finance agreements. We intend to fulfill these conditions in the second quarter of 2015. We plan to spend up to $2.2 billion for the three-year period of 2015-2017 on capital investments (including up to $0.2 billion in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program.

Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt and equity financing. This, to a certain extent, is subject to general economic and market conditions, financial, competitive, legislative, regulatory and other factors (including the status of international sanctions against Russian companies and individuals) that are beyond our control. Raising debt financing for our capital expenditures on commercially reasonable terms may be particularly challenging given our current high levels of indebtedness, restrictive covenants and pledges of shares and assets of our subsidiaries to our current lenders. Any deterioration in our operating performance, including due to any worsening of economic conditions, fall in commodity prices and/or financial, business or other factors, many of which are beyond our control, may adversely and materially affect our cash flow which may leave us unable to conduct our capital expenditure plans as necessary or required, which could adversely affect our operating facilities and ability to comply with applicable regulations.

Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations.

A substantial part of our sales are denominated in U.S. dollars, whereas the majority of our direct costs are incurred in rubles. Depreciation in real terms of the ruble against the U.S. dollar may result in a decrease in our costs relative to our revenues. Conversely, appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase sufficiently to compensate for the increase in real terms in our ruble-denominated expenditures. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues. In 2013, the ruble appreciated in real terms against the U.S. dollar by 2.7% as compared with 2012, according to the CBR. In 2014, the ruble depreciated significantly against the U.S. dollar and other currencies, plummeting to 67.79 rubles to one U.S. dollar on December 18, 2014. In 2014, the ruble depreciated in real terms against the U.S. dollar by 11.1% as compared with 2013, according to the CBR. As of March 31, 2015, the ruble-U.S. dollar exchange rate was 58.4643 (a 63.83% growth compared to March 31, 2014) and the ruble-euro exchange rate was 63.3695 (a 29.19% growth compared to March 31, 2014).

In an effort to protect the country s foreign currency reserves from substantial depletion, the CBR moved to a free floating exchange rate regime on November 20, 2014. In response to continuing ruble depreciation, the CBR in an unexpected, emergency meeting increased its key rate, which determines the borrowing costs for commercial banks, from 10.5% to 17% (subsequently lowering the rate to 15% on January 30, 2015 and to 14% on March 13, 2015). The increase in the CBR key rate resulted in more than a threefold increase in the MosPrime rate (as of December 31, 2014). Two of our facility agreements, namely the Mechel and Southern Kuzbass Coal Company facility agreements entered into with VTB Bank, bear floating interest rates tied to the MosPrime rate. See Item 10. Additional Information Material Contracts Credit Facility for Mechel from VTB Bank and Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Debt Financings in 2014. Although we are negotiating with VTB Bank in an effort to lower the interest rate to offset the rise in the MosPrime rate, as a result of the increase in the

MosPrime rate, our interest expenses payable under our ruble-denominated floating-rate debt increased from $34.2 million payable in the fourth quarter of 2014 to

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$60.5 million that would be payable in the first quarter of 2015, if we fail to agree to lower the interest rate. In addition, due to the volatile macroeconomic situation, U.S. and E.U. sanctions imposed against Russian state banks, the increase in the CBR key rate and the lack of liquidity on the financial markets, there is a significant risk that the interest rates under our main facility agreements with Russian lenders, including but not limited to VTB Bank Facility Agreements, Sberbank Facility Agreements, Gazprombank Facility Agreements, and with foreign lenders, such as the Pre-Export Facility Agreements entered into by Yakutugol and Southern Kuzbass Coal Company, will be unilaterally increased. Should the CBR key rate remain at current levels or be further increased, or should interest rates under our existing facility agreements otherwise increase, we will face higher borrowing costs, which could have a material adverse effect on our business, cash flows, financial condition, results of operations, prospects or our ability to comply with financial covenants under our facility agreements.

Inflation could increase our costs and decrease operating margins.

In 2014, 2013 and 2012, the inflation rate in Russia was 11.4%, 6.5% and 6.6%, respectively, according to the Russian Federal State Statistics Service (**Rosstat**). The Ministry of Economic Development of the Russian Federation predicts inflation will rise sharply in 2015 and perhaps in subsequent years as a result of international sanctions imposed on Russian companies and individuals, the significant fall in the ruble against the U.S. dollar and euro and other factors. Inflation increases our operating costs on monetary items, which are sensitive to rises in the general price level in Russia, including fuel and energy costs, cost of production services and salaries. Inflation could also potentially increase the prices we can charge for our products. The impact of inflation on our operating margins depends on whether we can charge higher prices corresponding with the increase in costs. Nevertheless, there is a high risk that inflation will have an overall negative impact on our operating margins.

Limitations on the conversion of rubles into foreign currencies in Russia could cause us to default on our obligations.

A significant part of our indebtedness and our major capital expenditures are denominated and payable in various foreign currencies, including the U.S. dollar and euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency without limitation. However, in light of the current economic crisis facing Russia, there has been talk that the Russian authorities may impose restrictions on the convertibility of capital in an effort to stabilize the value of the ruble. If the Russian authorities were to impose limitations on the convertibility of the ruble or other restrictions on operations with rubles and foreign currencies in the event of an economic crisis or otherwise, there may be delays or other difficulties in converting rubles into foreign currency to make a payment or delays in or restrictions on the transfer of foreign currency. This, in turn, could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business could be materially adversely affected if creditors of certain of our subsidiaries accelerate their debt.

We have merged and intend to continue to merge certain subsidiaries for operational reasons from time to time. Under Russian law, such mergers are considered to be a reorganization and the merged subsidiaries are required to publish the information regarding this reorganization twice: the first publication due at the beginning of the reorganization and the second to follow one month after the first publication. Russian law also provides that, for a period of 30 days after the date of latest publication, the creditors of merging subsidiaries have a right to file a claim seeking acceleration of the reorganized subsidiaries indebtedness and demand reimbursement for applicable losses, except in cases where the creditors have adequate security or are provided with adequate security within 30 days after filing of such claim. In the event that we undertake any such merger and all or part of our subsidiaries indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Russian law restrictions on depositary receipt programs limit our access to equity capital and constrain our refinancing options.

Russian companies are limited in their ability to place shares in circulation outside of Russia, including in the form of depositary receipts such as our common American Depositary Shares (**common ADSs**) and our global depositary shares representing our common shares (**GDSs**), as well as our preferred American Depositary Shares representing our preferred shares (**preferred ADSs** , and together with the common ADSs, the **ADSs**) due to Russian securities regulations. We have received permission from the Russian Federal Financial Markets Service (**FFMS**) for up to 40% of our common shares to be circulated abroad through depositary receipt programs, which was the maximum amount allowed at that time. Later we also received FFMS permission for a total of 41,627,074 preferred shares to be circulated through depositary receipt programs, representing 30% of the total number of issued preferred shares, which was the maximum amount allowed at that time. Over the last few years, this limit has been gradually reduced by the regulator. Current regulations provide that no more than 25%, 15% or 5% of the total number of outstanding shares of a certain class may be placed or circulated outside the Russian Federation depending on the company s listing status on a Russian stock exchange (A, B or V and I). Order No. 13-62/pz-n of the FFMS of July 30, 2013 introduc new rules on listing status, according to which the following new categories were created: Level 1, which includes the securities formerly categorized as A level, and Level 2, which includes the securities formerly categorized as B, V, or I level securities. Our common and preferred shares have a listing status of Level 1 on Closed Joint Stock Company MICEX Stock Exchange (**MICEX**). It is unclear whether the FFMS s approvals of higher amounts prior to the establishment of these lower limits will be allowed to remain in place. Our common ADSs and GDSs together currently account for approximately 35% of our common shares, and accordingly we believe we cannot raise additional equity financing through placement of common shares in the form of depositary receipts. If the current limits are enforced Deutsche Bank Trust Company Americas (the **depositary**) may be forced to cancel some of our common ADSs and GDSs and deliver a corresponding number of the underlying common shares to holders of common ADSs or GDSs. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

A non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have an adverse effect on our business, results of operations and financial condition.

From late 2009 to the end of 2013, we worked closely with certain Russian and foreign metallurgical plants and trading companies, which are disclosed as related parties in our U.S. GAAP financial statements (the **related metallurgical plants**). See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with related metallurgical plants, Transactions with Metallurg-Trust and note 10 to the consolidated financial statements. We supplied raw materials to them and purchased their products pursuant to short-term supply and purchase contracts. By the end of 2013 and in 2014, the volume of transactions with the related metallurgical plants and Metallurg-Trust declined significantly due to the temporary suspension of operations of certain of the metallurgical plants and the initiation of bankruptcy proceedings against these companies. Revenues from sales to these companies amounted to $105.7 million, $230.0 million and $730.0 million in the years ended December 31, 2014, 2013 and 2012, respectively. Purchases from these companies amounted to $114.4 million, $613.4 million and $874.6 million in the years ended December 31, 2014, 2013 and 2012, respectively. Revenues from re-sales of products purchased from these companies to third parties amounted to $83.1 million, $570.5 million and $847.7 million in the years ended December 31, 2014, 2013 and 2012, respectively. Substantially all of the revenues from sales to, and revenues from re-sales of products purchased from, these companies were in the steel segment. In the years ended December 31, 2014, 2013 and 2012, these revenues represented 5.2%, 15.6% and 23.0%, respectively, of our group s total steel segment revenues. As of December 31, 2014, trade accounts receivable and other accounts receivable from these companies totaled $596.1 million, with credit terms varying from two days to five years. In addition, as of December 31, 2014, prepayments to these companies totaled $29.2 million. We closely monitor our balances with these companies, including our trade accounts payable to them. As of December 31, 2013 and 2014, we recorded allowances in the total amount of $734.9 million and $618.5 million, respectively, against the accounts receivable and prepayments from these companies. The allowance for doubtful accounts was recognized based on our estimates of future cash inflows from these balances.

In November 2011, the owners of the related metallurgical plants (**Estar Group**) entered into an agreement with us pursuant to which $944.5 million of debt, mostly consisting of accounts receivable owed to us by the Estar Group, was restructured into a loan agreement (the **Estar Loan Agreement**). The Estar Loan Agreement was secured by a pledge of shares in the major related metallurgical plants and/or their parent companies, as well as by suretyships from the related metallurgical plants and/or their parent companies. In September 2012, we extended the term of the loan for additional nine months until June 2013, reducing the amount of the loan to $876 million. During the year ended December 31, 2013, the loan was repaid only in the amount of $5.0 million. As the repayment was not effected in time we initiated legal proceedings against the borrower and sureties. There were no additional repayments of the loan during the year ended December 31, 2014.

In September 2012, we acquired a 100% stake in Cognor Stahlhandel, a metallurgical trader, and, in November 2012, we acquired a 100% stake in Lomprom Rostov, a scrap collecting and processing company (subsequently renamed to Mechel Vtormet Rostov). Both entities formed part of the pledged assets under the Estar Loan Agreement. Upon the acquisitions, the loan under the Estar Loan Agreement was partially repaid and reduced to $731 million. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with related metallurgical plants and Transactions with Metallurg-Trust and note 10 to the consolidated financial statements.

As of December 31, 2014 and December 31, 2013, we evaluated the recoverability of the balances due from the related metallurgical plants and the Estar Group based on the fair value of the pledged assets which we determined to be negligible. This resulted in an $832.0 million and $888.0 million provision for amounts due from related parties under the Estar Loan Agreement as of December 31, 2014 and December 31, 2013, respectively. We have not taken possession of other assets (besides Cognor Stahlhandel and Lomprom Rostov) provided as collateral because these entities are burdened with a substantial amount of debt. Nevertheless, given the liquidity issues faced by these companies and the dependency of their businesses on the general condition of the steel sector as well as the reduction in the volume of transactions we entered into with the related metallurgical plants in 2013 and 2014, we may fail to collect accounts receivable from and suffer loss of prepayments to these companies, which could have an adverse effect on our business, results of operations and financial condition.

We may incur impairments to goodwill or other long-lived assets which could negatively affect our future profits.

At each reporting date, we review the carrying value of our long-lived assets, including property, plant and equipment, investments, goodwill, licenses to use mineral reserves (inclusive of capitalized costs related to asset retirement obligations and value beyond proven and probable reserves), and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated net undiscounted cash flows expected to be generated by the asset or group of assets. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired, and an impairment charge is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to their fair value.

Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. Estimated future cash flows are based on our

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assumptions and are subject to risks and uncertainties that are considered when setting the discount rate in the goodwill impairment testing. For assets and groups of assets relating to and including the licenses to use mineral reserves, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers. Our reporting units with goodwill allocated for testing purposes represent single entities with one component of business in each case.

Goodwill is assessed for impairment by using the fair value based method. We determine fair value by utilizing discounted cash flows. Goodwill is tested for impairment in two steps. Under the first step we compare the fair value of the reporting unit with its carrying value. If the fair value is less than the carrying value, goodwill is impaired. Under the second step the amount of goodwill impairment is measured by the amount that the reporting unit s goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit s assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before testing goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

When performing impairment tests, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. We estimate discount rates using after-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill, we performed during the year ended December 31, 2014, no impairment loss of goodwill was recognized. An impairment loss of long-lived assets of $120.2 million was, however, recognized. See note 24 to the consolidated financial statements.

The amount of goodwill on our balance sheet as of December 31, 2014 that is subject to impairment analysis in the future is $403.2 million or 6% of our total assets. This amount includes goodwill of Yakutugol, Southern Kuzbass Power Plant, Bratsk Ferroalloy Plant and Port Posiet of $237.9 million, $68.0 million, $52.0 million and $13.4 million, respectively, the fair values of which were 54%, 307%, 321% and 106% over their carrying values, respectively, as of December 31, 2014. See note 24 to the consolidated financial statements.

We continue to monitor relevant circumstances, including consumer levels, general economic conditions and market prices for our products, and the potential impact that such circumstances might have on the valuation of our goodwill and long-lived assets. It is possible that changes in such circumstances, or in the numerous variables associated with our judgments, assumptions and estimates made in assessing the appropriate valuation of goodwill and recoverability other long-lived assets, could in the future require us to further reduce our goodwill and other long-lived assets and record related non-cash impairment charges. If we are required to record additional impairment charges, this could have a material adverse impact on our results of operations or financial position.

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Given the competition for qualified accounting personnel in Russia, we may be unable to retain our key accounting staff, which could disrupt our ability to timely and accurately report U.S. GAAP financial information.

Our subsidiaries maintain their books and records in local currencies and prepare accounting reports in accordance with local accounting principles and practices. In particular, each of our Russian subsidiaries maintains its books in rubles and prepares separate unconsolidated financial statements in accordance with Russian accounting standards. For every reporting period, we translate, adjust and combine these Russian statutory financial statements to prepare consolidated financial statements prepared in accordance with U.S. GAAP. This is a time-consuming task requiring us to have accounting personnel experienced in internationally accepted accounting standards. We believe there is a shortage in Russia of experienced accounting personnel with knowledge of internationally accepted accounting standards. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of internationally accepted accounting standards. Such competition makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave us.

Risks Relating to Our Business and Industry

We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects.

Our mining segment sells coal (metallurgical and steam), iron ore and coke. These commodities are traded in markets throughout the world and are influenced by various factors beyond our control, such as global economic cycles and economic growth rates. Prices of these products have varied significantly in the past and continue to be lower than their peaks in recent years due to soft demand.

Our steel segment sells steel products, including semi-finished products, long products of a wide range of steel grades, carbon and stainless flat products, wire products, forgings and stampings and others, as well as ferrosilicon. Ferrosilicon is primarily used in the manufacture of steel and its market demand generally follows the cycles of the steel industry. The steel industry is highly cyclical in nature because the industries in which steel customers operate are subject to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

Our power segment generates and supplies electricity. Power demand in Russia depends on its consumption by the industrial sector. In Russia, the steel and mining industries are major consumers of power and declines in production by steel and mining companies impact demand for power. Market demand for the power produced by our power segment is affected by many of the same factors and cycles that affect our mining and metals businesses. Due to government price regulation and the current shortage of power generation capacity in Russia, the reduction in demand for power has not impacted power prices. However, as Russian regulated power prices are set in rubles, if power prices are not increased steadily they may decline on a real dollar basis, particularly following the depreciation in the ruble, beginning in late 2014, and the higher levels of inflation at present.

As a result of the 2008-2009 global economic crisis and the subsequent 2010-2011 global economic slowdown, the demand and prices for our products sharply declined. The continuing stagnation of the economy of the European region, the 2012-2014 economic slowdowns in the Asian region, primarily in China, as well as the existing uncertainty as to global economic recovery in the near future and international sanctions against Russia and Russian individuals or businesses may have adverse consequences for our customers and our business as a whole. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

Prices for our products, including coal, iron ore, metals, ferrosilicon and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the production of our products, fluctuate substantially over relatively short periods of time and expose us to commodity price risk. We do not use options, derivatives or swaps to manage commodity price risk. We use our vertically integrated business model and intersegment sales, as well as short-term and long-term purchase and sales contracts with third party suppliers and customers, to manage such risk. In addition, the length and pricing terms of our sales contracts on certain types of products are affected and regulated by orders issued by Russian antimonopoly authorities. In particular, pursuant to a directive issued to us by the Russian Federal Antimonopoly Service (**FAS**) in August 2008, we entered into long-term contracts for supply of certain grades of our coking coal with a formula of price calculation and with fixed volumes for the entire period of the contract. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices. Terms of sales of other types of our products may also be affected by regulations of the authorities. We cannot assure you that our strategies and contracting practices will be successful in managing our pricing risk or that they will not result in liabilities. If our strategies to manage commodity price risk and the impact of business cycles and fluctuations in demand are not successful, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

The steel and mining industries are highly competitive, and we may not be able to compete successfully.

We face competition from Russian and international steel and mining companies. Consolidation in the steel and mining sectors globally has led to the creation of several large producers, some of which have greater financial resources and more modern facilities than our group. We also face price-based competition from producers in emerging market countries, including, in particular, Ukraine, Kazakhstan, Belarus and China. Increased competition could result in more competitive pricing and reduce our operating margins.

Our competitiveness is based in part on our operations in Russia having a lower cost of production than competitors in higher-cost locations. We have been facing a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. For example, our rail transportation costs increased consistently with rail tariff increases of 6.0% in 2012 and 7.0% in 2013. In 2014, railway tariffs were not indexed; however, in 2015, they were increased by 10.0%. In addition, the significant fall in the ruble against the U.S. dollar and expected higher inflation rates in 2015 and perhaps in subsequent years could lead to increased costs in ruble terms in the future. See A decrease in railway infrastructure capacity and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products, Increasing costs of electricity, natural gas and labor could materially adversely affect our operating margins and Inflation could increase our costs and decrease operating margins. If these production costs continue to increase in the jurisdictions in which we operate, our competitive advantage will be diminished, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins.

We base our reserve information on engineering, economic and geological data which is assembled and analyzed by our staff, which includes various engineers and geologists, and which is reviewed by independent mining engineers only periodically, approximately once every three years. The reserve estimates as to both quantity and quality are periodically updated to reflect production from reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities and the costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, such as geological and mining conditions which may not be fully identified by available exploration data or which may differ from our experience in current operations, projected rates of production in the future, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning prices, operating costs, mining technology improvements, mineral extraction and excise tax, development costs and reclamation costs, all of which may vary considerably from actual results. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity. Mine development plans may have to be revised due to geological and mining conditions and other factors described above, as well as due to shortages in capital funding. Our planned development projects also may not result in significant additional reserves and we may not have continuing success developing new mines or expanding existing mines beyond our existing reserves.

The financial performance of our mining segment depends substantially on our ability to mine coal reserves that have the geological characteristics that enable them to be mined at competitive costs and to meet the quality needed by our customers. Actual tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. Our ability to obtain other reserves through acquisitions in the future could be limited by restrictions under our existing or future loan agreements, competition from other mining companies for attractive properties, the lack of suitable acquisition candidates or the inability to acquire mining properties on commercially reasonable terms. Furthermore, we may not be able to mine all of our reserves as profitably as we do at our current operations due to increases in wages, power and fuel prices and other factors.

Therefore, changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins.

The calculation of reserves and the development of the Elga coal deposit are subject to certain risks due to the license obligations and capital costs involved in developing the required infrastructure.

The risks associated with the development of the Elga coal deposit have the potential to impact the project s legal or economic viability, including the calculation of reserves. Key risks that have been identified include the following: (1) the subsoil license for the Elga coal deposit could be suspended or terminated if construction deadlines and operational milestones are not met or we could be required to extend the license under less favorable terms; (2) the project requires significant capital expenditures to develop the required production and washing facilities and infrastructure, and increases in planned capital and operating costs could make the project uneconomical because of the project s sensitivity to these costs; (3) the economic viability of the project is dependent upon the full use of the rail line; (4) the project is very sensitive to market prices for coal because of the high initial capital costs; and (5) the insufficient capacity of ports in the Russian Far East where the Elga deposit is located may limit the distribution of coal mined at the Elga deposit. In addition, capital expenditures for the rail line were not considered in the calculation of reserves estimates as we do not plan to use the rail line solely for delivery of coal from the Elga deposit. While we have already invested approximately $2.1 billion in the development of the Elga coal deposit, its further development requires an additional approximately $1.7 billion in 2015-2017. In March 2014, our subsidiary Elgaugol signed two loan agreements with Vnesheconombank for a $2.5 billion project financing to develop the Elga coal deposit. In case of Elgaugol s failure to comply with the construction deadlines, operational milestones and other terms of the loan agreements, Vnesheconombank may suspend or terminate the financing. The realization of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects. Disbursement under the two loan agreements was in fact suspended by Vnesheconombank due to our failure to fulfill conditions precedent; we intend to fulfill all conditions so as to continue disbursements in 2015.

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Successful implementation of our strategy to expand our special steel long products sales and coal sales depends on our ability to increase our export sales of these products.

Our strategy to expand our special steel long products sales is dependent on our ability to increase our exports of these products to other countries. We face a number of obstacles to this strategy, including oversupply and low demand, trade barriers and sales and distribution challenges, as well as restrictions imposed by antimonopoly legislation and regulatory orders. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal and PCI, is substantially dependent on our ability to increase our exports of these products through ports in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries.

Currently, key ports in the Russian Far East have limited cargo-handling capacity, lack adequate port facilities and have old and worn-out equipment. In particular, the limited capacity of the railways connecting to these ports is a critical impediment to the further development of port infrastructure and the entire transportation system in the Russian Far East. Existing railway sections must be reconstructed, the logistics structure improved and the actions of the cargo owners, the ports management and Russian Railways, an open joint-stock company wholly owned by the Russian government, must be better coordinated. Increasing the capacity of the ports in the Russian Far East is one of the key issues identified in the Transportation Strategy of the Russian Federation. In addition, major track repairs by Russian Railways in the summer months result in restriction on cargo volumes and delays.

In particular, the current annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line, is in the range of 12 to 15 million tonnes, which will need to be expanded substantially to meet our needs when Elga Open Pit reaches its full planned annual production capacity of 24.0 million tonnes of saleable coal in 2024. Russian Railways plans to double the capacity of the Baikal-Amur Mainline by 2020 as well as increase capacity of the Komsomolsk-on-Amur-to-Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 32.6 million tonnes by 2016. However, this increase may not be sufficient as third party users of rail lines may also substantially increase their cargo volumes on the Baikal-Amur and Trans-Siberian Mainlines and further in the direction from Komsomolsk-on-Amur to Sovetskaya Gavan transportation hub. We cannot guarantee that these development projects by Russian Railways will proceed according to current plans, particularly in light of international sanctions against Russian companies and individuals. In addition, there is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavored to acquire ports or separate terminals to ensure the export of their products.

Our ability to increase coking coal export volumes is also limited by requirements to first satisfy Russian domestic coal demand, pursuant to a FAS directive issued to us in August 2008. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices. Failure to successfully manage the obstacles and tasks involved in the implementation of our export sales expansion strategy could have a material adverse effect on our business, financial condition, results of operations and prospects.

In the event the title to any company we acquired is successfully challenged, we risk losing our ownership interest in that company or its assets.

Almost all of our Russian assets consist of companies formed during the course of Russian privatizations in the 1990s and early 2000s. In particular, Southern Kuzbass Coal Company and the other mining companies which were subsequently merged into Southern Kuzbass Coal Company, as well as Korshunov Mining Plant and Moscow Coke and Gas Plant, were privatized in the early 1990s. Chelyabinsk Metallurgical Plant was also privatized in the early 1990s. Elgaugol OAO was privatized in 1998 and Yakutugol was privatized in 2002. In

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general, we acquired shares in these companies from third parties after their respective privatizations, except for a 25%+1 share stake in Yakutugol, which was acquired pursuant to a state auction in 2005. We acquired the remaining stake in Yakutugol and a 68.86% stake in Elgaugol OAO in 2007 from two state-owned companies in a tender process.

Given that Russian privatization legislation is vague, many privatizations are vulnerable to challenge. The Russian statute of limitations for challenging privatization transactions is generally three years since the date when performance of the transaction began. If a person presenting the claim was not a party to the transaction, the statute of limitations runs from the date when such person found out or should have found out that performance of the transaction was initiated. The statute of limitations generally cannot exceed 10 years from the commencement of performance of the transaction, although recent court practice suggests this limit does not apply if a claimant was not aware of a violation and if it is determined that, in accordance with general principles of justice, the statute of limitations concept cannot be otherwise relied on to allow the legalization of unlawfully acquired property. As noted above, most of our subsidiaries were privatized more than 10 years ago. In the event that any title to, or our ownership stakes in, any of the privatized companies acquired by us is subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition, results of operations and prospects.

In addition, under Russian law transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transaction rules and/or the terms of transaction approvals issued by governmental authorities, or failure to register the share transfer in the securities register. As a result, defects in earlier transactions with shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits.

Our business depends on the continuing validity of our subsoil licenses and the issuance of new and extended subsoil licenses and our compliance with the terms thereof. In particular, in estimating our reserves, we have assumed that we will be able to renew our Russian subsoil licenses as and when necessary in the ordinary course of business so that we will be able to exploit the resources under such licenses for the operational life of the relevant subsoil plot. See Item 4. Information on the Company Regulatory Matters Subsoil Licensing in Russia Extension of licenses and Mining Segment Mineral reserves (coal, iron ore and limestone). However, license extension is subject to the licensee being in compliance with the terms of the license. Our experience with license extensions and publicly available information about current market practice and available court practice suggest that regulatory authorities tend to focus on such terms of the license as production levels, operational milestones and license payments, which are considered to be material terms of the license. Nevertheless, there is no assurance that this approach will be consistently applied by the regulatory authorities and the courts and that there will be no changes to this approach in the future. Regulatory authorities exercise considerable discretion in the timing of license issuance, extension of licenses and monitoring licensees compliance with license terms. Subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See Item 4. Information on the Company Regulatory Matters Subsoil Licensing in Russia Maintenance and termination of licenses. If regulatory authorities determine that we have violated the material terms of our licenses, it could lead to rejection in license extension or suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. Our subsoil licenses expire on dates falling in 2020 through 2037. See the tables setting forth expiry dates of our Russian subsoil licenses in Item 4. Information on the Company Mining Segment and reserves information. Accordingly, these factors may seriously impair our ability to operate our business and realize our reserves which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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We are currently in compliance with the material terms of our Russian subsoil licenses, except for the following. We failed to commence commercial coal production at the Raspadsk license area (part of Olzherassky Open Pit) in 2009 as required by the license due to unfavorable mine economics, but expect to commence such production in the third quarter of 2016 provided coal prices recover sufficiently. In addition, we commenced the development of the coal deposits at the Yerunakovsk-1, Yerunakovsk-2 and Yerunakovsk-3 license areas, but failed to commence commercial production at these license areas in 2011 as required by the licenses due to unfavorable mine economics. Moreover, we cannot fully develop the deposit at the Yerunakovsk-3 license area due to the presence of a third-party sludge pond in this area. Furthermore, we failed to commence commercial coal production at the Olzherassk license area (Olzherasskaya-Glubokaya Underground) due to unfavorable mine economics and the significant capital investments required to develop this license area. The Yerunakovsk-2, Yerunakovsk-3 and Olzherassk (Olzherasskaya-Glubokaya Underground) license areas are not counted for the purposes of our coal reserves.

Increasing costs of electricity, natural gas and labor could materially adversely affect our operating margins.

In 2014, our Russian operations purchased approximately 4.8 billion kilowatt-hours (**kWh**) of electricity at a total cost of $327.8 million, implying an average cost of 6.8 cents per kWh. The restructuring of the Russian power sector that began in 2001 is substantially complete and all government regulation of electricity prices in the wholesale power market, except for the sales to household consumers and similar type of consumers, expired in 2011. According to the Ministry of Economic Development of the Russian Federation, the average increase in market prices on the retail electricity market was 6.2-7.0% in 2014, and is expected to be in the range of 6.5-7.9% in 2015. Further price increases for electricity may also occur in the future as the power generating companies created in the restructuring are financed by and controlled to a greater extent by the private sector.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity at our own co-generation facilities, from Novatek OAO (**Novatek**), Russia s largest independent producer of natural gas, and Gazprom OAO (**Gazprom**), the government-controlled dominant gas producer and the owner of the unified gas supply system of Russia. Domestic natural gas prices are regulated by the Russian government. In 2014, we purchased 212.2 million cubic meters of gas at a total cost of $20.5 million. Russian domestic natural gas prices are significantly below Western European levels, which provides us with a cost advantage over our competitors, an advantage which is expected to diminish as Russian domestic gas prices approach Western European levels. Starting from January 1, 2014, the Russian Federal Tariff Service (the **FTS**) set wholesale prices of gas produced by Gazprom for domestic consumers on the territory of the Russian Federation, except for households, in the range of $91.7 to $118.3 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

Following raw materials used in the production process and energy-related costs, our labor costs are the next most significant operational cost. Labor costs in Russia have historically been significantly lower than those in the more developed market economies of North America and Western Europe for similarly skilled employees. However, the average wage in Russia has been rising in recent years. According to Rosstat, after adjusting for inflation, the average wage in the Russian Federation has risen at the annual rate of 1.3%, 4.8% and 8.4% in 2014, 2013 and 2012, respectively. Moreover, labor costs in Russia are indexed to and adjusted for inflation, which means that, due to expected higher inflation rates in 2015 and perhaps in subsequent years, we expect labor costs to rise. We believe our advantage with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid in Russia may be reduced, including as a result of higher expected inflation.

Higher costs of electricity, natural gas and labor could negatively impact our operating margins, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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A decrease in railway infrastructure capacity and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian rail system is controlled by Russian Railways, which is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation, including the terms related to the type of rolling stock to be used for transportation of certain types of cargo and the estimated minimum tonnage for the purposes of determining the applicable tariff. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways capital investment program, which is in turn affected by the acute need to upgrade track infrastructure and passenger- and cargo-handling facilities.

The most significant railcar owners are JSC Freight One, JSC Federal Freight, NefteTransService ZAO, Globaltrans, Rail Garant, RT Operator OOO and ZapSib-Transservice OOO. Our cargoes are currently transported in the railcars owned by our subsidiary Mecheltrans or third party railcar owners, mainly to transport coal products and iron ore concentrate. At present, only these third party railcar owners and Russian Railways possess a sufficiently extensive railcar fleet to service our present and future requirements. Mecheltrans works with third party railcar owners to arrange for transportation and forwarding of cargoes with their railcars. In 2014, our freight volume transported by JSC Federal Freight, JSC Freight One, RT Operator OOO, ZapSib-Transservice OOO, Globaltrans and Rail Garant amounted to 27.1 million tonnes, for which we paid $217.0 million.

In 2014, railway tariffs were not indexed. However, in 2015, railway tariffs were increased by 10.0%. Starting from January 29, 2015, railway export tariffs for all goods were increased by an additional 13.4%, except for certain grades of coal and middlings for which additional indexation amounted to only 1.3%. Along with the growth of tariff levels, a disruption may occur in the transportation of our raw materials and products due to the oversupply of rolling stock which further aggravates the insufficient capacity of the railway infrastructure. Congestion of the railway infrastructure due to the oversupply of rolling stock may also result in increases in cargo delivery terms. Furthermore, an increase in prices of rolling stock operators services may occur in the future due to lower turnover of railcars, higher inflation or other reasons. All of the above factors may negatively impact our operating margins and could materially adversely affect our business, financial condition, results of operations and prospects.

We face certain trade restrictions in the export of ferrosilicon to the European Union.

In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. In February 2013, the European Commission initiated an expiry review of the antidumping measures applicable to imports of ferrosilicon. In April 2014, the antidumping duty was extended for another five years. We may face additional antidumping duties and other trade restrictions in the European Union, the United States and other markets in the future. See Item 4. Information on the Company Steel Segment Trade restrictions.

We benefit from Russia s tariffs and duties on imported steel, many of which have been reduced upon Russia s WTO membership and may be eliminated in the future.

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5-15% of the value of the imports. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2014. The Republic of Belarus, the Republic of Kazakhstan and the Russian Federation entered into a Customs Union and implemented a Common Customs Tariff, which came into force on January 1, 2010, reducing import duties on stainless rolled products from 15% to 10%. Starting from January 2, 2015, the Customs Union was enlarged to include the Republic of Armenia. Creation of this Customs Union, as well as other actions and decisions of Russian authorities in respect of tariffs and duties, can lead to further reduction of import duties.

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On November 20, 2013, the Eurasian Economic Commission initiated an antidumping investigation against imports of steel bars originating in Ukraine. We will benefit from protection of the Customs Union s market from low-priced import of steel bars in case of antidumping duties are imposed.

Upon Russia s entry into the World Trade Organization (**WTO**), the import tariffs and duties of Russia were reduced or eliminated, depending on the type of steel products. In particular, according to the WTO accession terms Russian import duties on most types of steel products have been reduced to 5%, causing increased competition in the Russian steel market from foreign producers and exporters.

Our exports to the European Union are subject to REACH regulations.

Chemical substances contained in some of our products, as well as by-products and waste, which we export to or produce in the European Union are subject to regulation (EC) No 1907/2006 on registration, evaluation, authorization and restrictions of use of chemicals (**REACH**) that entered into force on June 1, 2007. Under REACH, we must provide a registration dossier for such substances to the European Chemicals Agency (**ECHA**). In addition, we must provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. In accordance with REACH, prior to December 1, 2008, we pre-registered substantially all of the substances that we intended to export to or produce in the European Union. As a next step in accordance with the REACH implementation schedule, prior to December 1, 2010, we registered with the ECHA all of the substances that we export to or produce in the European Union in an amount over 1,000 tonnes per year, and which are subject to REACH registration. We believe that we are in compliance with current REACH requirements and we will have to maintain certain resources to ensure compliance with further developing REACH requirements.

REACH provides for a special authorization regime for substances of high concern, including those that are identified from scientific evidence as causing probable serious effects to humans or the environment on a case-by-case basis. To obtain authorization, a manufacturer of substances of high concern is generally required to demonstrate that the risk from the use of the substance is adequately controlled. All substances under the authorization regime are subject to restrictions with respect to manufacture, placing on the market or use. The European Commission may amend or withdraw the authorization, even one given for adequate control, if suitable substitutes have become available. Currently, none of our products contain substances which may be subject to the authorization regime. There is no assurance that our products will not be subject to further restrictions or bans if any substance of high concern is detected in our products in excess of statutory thresholds, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The European Commission has planned several revisions of the REACH regulation by 2019. Compliance with changes to the existing regulations may lead to increased costs, modifications in operating practices and/or further restrictions affecting our products. Any such changes and/or modifications could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to mining risks.

Our operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property.

In particular, hazards associated with our open pit mining operations include, but are not limited to: (1) flooding of the open pit; (2) collapses of the open pit wall; (3) accidents associated with the operation of large open pit mining and rock transportation equipment; (4) accidents associated with the preparation and ignition of large-scale open pit blasting operations; (5) deterioration of production quality due to weather; and (6) hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination.

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Hazards associated with our underground mining operations include but are not limited to: (1) underground fires and explosions, including those caused by flammable gas; (2) cave-ins or ground falls; (3) emissions of gases and toxic chemicals; (4) flooding; (5) sinkhole formation and ground subsidence; and (6) other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine, including due to human error.

We are at risk of experiencing any and all of these hazards. The occurrence of such hazards could delay production, increase production costs, result in injury to persons or death, and damage to property, as well as liability for us. For example, on May 30, 2008, there was a cave-in at V.I. Lenina Underground (which led to suspension of operations for 17 calendar days) and on July 29, 2008 there was a methane flash (which led to suspension of operations for 67 calendar days). Both accidents involved multiple casualties, and the first accident resulted in five fatalities. In 2010 through 2012, there were a number of occasions of self-heating and spontaneous ignition of coal as well as an increase of coal dust levels, each of which resulted in the temporary suspension of mining operations at the longwalls of Sibirginskaya Underground, V.I. Lenina Underground and Olzherasskaya-Novaya Underground. There were no casualties involved in any of these occasions. In 2013-2014, there were also a number of occasions which caused the temporary suspension of mining operations, but had no significant effect on our business. We have been and are still implementing measures to cure the causes of these occasions and we are cooperating with the competent governmental authorities, in particular, the Russian Federal Service for Ecological, Technological and Nuclear Supervision (**Rostekhnadzor**).

The risk of occurrence of these hazards is also exacerbated by the significant level of wear of the equipment of our mining enterprises. We are conducting a program of phased replacement and refurbishment of obsolete equipment in order to meet safety requirements at our most hazardous facilities. See Item 8. Financial Information Litigation Environmental and safety.

Abnormal weather conditions and natural hazards could negatively impact our business.

Our production facilities are located in different climate and weather conditions, and abnormal weather changes and natural hazards could affect their operations. Interruptions in electricity supply and transport communication could lead to delays in deliveries of raw materials to our production facilities and finished products to consumers, as well as a suspension of production. In addition, the existence of abnormally low temperatures for a long period of time may limit the work of the crane equipment and mining-and-transport equipment. For example, in 2012 operations at our open pit mines in Russia were suspended for a period of 2 to 7 days due to abnormally low temperatures. In 2013, such suspensions ranged from 2 to 16 days. The negative impact of such abnormal or extreme climate and weather conditions may have an adverse effect on our business, financial condition, results of operations and prospects.

More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, cleanup costs and compensatory damages, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations and properties are subject to environmental laws and regulations in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including the requirement to perform decontamination and reclamation, such as cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related cleanup costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental and civil laws is clearly determinable. Furthermore, new and more stringent regulations have been introduced in a number of countries in response to the impacts of climate change. See Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.

Generally, there is a greater awareness in Russia of damage caused to the environment by industry than existed during the Soviet era. At the same time, environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. However, recent Russian government initiatives indicate that Russia will introduce new water, air and soil quality standards and increase its monitoring and fines for non-compliance with environmental rules, and environmental concerns are increasingly being voiced at the local level.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2014, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of $47.2 million for asset retirement obligations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided. We estimated the total amount of capital investments to address environmental concerns at our various subsidiaries at $23.7 million as of December 31, 2014. These amounts are not accrued in the consolidated financial statements until actual capital investments are made. See note 26(b) to the consolidated financial statements.

In the course, or as a result, of an environmental investigation by Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to be halted for a period of up to 90 days. We have been cited in Russia for various violations of environmental regulations in the past and we have paid certain fines levied by regulatory authorities in connection with these infractions. In June 2013, the Russian Federal Service for the Supervision of Natural Resources (**Rosprirodnadzor**) claimed 398.6 million rubles from Beloretsk Metallurgical Plant as compensation for damages caused by discharging waste water into the river Belaya and Beloretsk storage reservoir. This claim was resolved by means of a settlement agreement approved by the arbitrazh court according to which Beloretsk Metallurgical Plant is obliged to reconstruct a waste treatment facilities system by December 31, 2016. See Item 8. Financial Information Litigation Environmental and safety. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective periods since we acquired or established them, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In the event that production at any of our facilities is partially or wholly suspended due to this type of sanction, our business, financial condition, results of operations and prospects could be materially adversely affected.

Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.

Through our mining and power segments, we are a major producer of carbon-related products such as coal, coal concentrate and energy. Coal and coal-based energy are also significant inputs in many of the operations of our steel segment. A major by-product of the underground mining of coal is methane (CH_4) and a major by-product of coal burning is carbon dioxide (CO_2), both of which are considered to be greenhouse gases and generally a source of concern in connection with global warming and climate change.

The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Kyoto Protocol. In order to give the countries a certain degree of flexibility in meeting their emission reduction targets, the Kyoto Protocol developed mechanisms allowing participating countries to earn and trade emissions credits by way of implementing projects aimed at meeting the Kyoto Protocol targets. The European Union has established greenhouse gas regulations and many other countries are in the process of doing so. The European Union Emissions Trading System (**EU ETS**), which came into effect on January 1, 2005, has had an impact on greenhouse gas and energy-intensive businesses based in the European Union. Our operations in Lithuania are currently subject to the EU ETS, as are our E.U. based customers.

The Russian Federation ratified the Kyoto Protocol in 2005 and since October 2009 Russia has established a legal procedure for implementing trading mechanisms provided under the Kyoto Protocol. However, in 2012, Russia refused to sign up for the second period of limits set to begin in 2013 and remain in effect until 2020.

The Kyoto Protocol and the EU ETS could restrict our operations and/or impose significant costs or obligations on us, including requiring additional capital expenditures, modifications in operating practices, and additional reporting obligations. These regulatory programs may also have a negative effect on our production levels, profit and cash flows and on our suppliers and customers, which could result in higher costs and lower sales. Inconsistency of regulations particularly between developed and developing countries may also change the competitive position of some of our assets. Finally, we note that even without further legislation or regulation of greenhouse gas emissions, increased awareness and any adverse publicity in the global marketplace about the greenhouse gasses emitted by companies in the steel manufacturing industry could harm our reputation and reduce customer demand for our products.

Failure to comply with existing laws and regulations could result in substantial additional compliance costs or various sanctions which could materially adversely affect our business, financial condition, results of operations and prospects.

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. See Item 4. Information on the Company Regulatory Matters Licensing of Operations in Russia. Governmental authorities in countries where we operate exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations, and in monitoring licensees compliance with the terms thereof which may result in unexpected audits, criminal prosecutions, civil actions and expropriation of property. Authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year.

Our failure to comply with existing laws and regulations or to obtain and comply with all approvals, authorizations and permits required for our operations or findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Arbitrary government actions directed against other Russian companies (or the consequences of such actions) may generally impact on the Russian economy, including the securities market. Any such actions, decisions, requirements or sanctions could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

The concentration of our shares with our controlling shareholder will limit your ability to influence corporate matters and transactions with the controlling shareholder may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions.

Our Chairman, Igor Zyuzin may be deemed to be the beneficial owner of approximately 67.42% of our common shares. See Item 7. Major Shareholders and Related Party Transactions. Except in certain cases as provided by the Federal Law On Joint-Stock Companies, dated December 26, 1995, as amended (the **Joint-Stock Companies Law**), resolutions at a general shareholders meeting are adopted by a majority of the voting stock at a meeting where shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by a majority of the voting stock present at a general shareholders meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority of the voting stock present at such a general shareholders meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in the meeting. Thus, our controlling shareholder can take actions that you may not view as beneficial or prevent actions that you may view as beneficial, and as a result, the value of the shares and ADSs could be materially adversely affected.

We have also engaged and will likely continue to engage in transactions with related parties, including our controlling shareholder, which may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Our competitive position and future prospects depend on our senior management team.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and, in particular, Mr. Zyuzin, our Chairman and controlling shareholder. Mr. Zyuzin has provided, and continues to provide, strategic direction to us.

Moreover, competition in Russia, and in the other countries where we operate, for senior management personnel with relevant expertise is intense due to the small number of qualified individuals. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified senior management personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Our business has grown substantially through the acquisition and founding of companies, many of which required the prior approval or subsequent notification of the FAS or its predecessor agencies. Relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without such approval or notification. This legislation is vague in certain parts and subject to varying interpretations. If the FAS were to conclude that a company was acquired or created in contravention of applicable legislation and that competition has been or could be limited as a result, it could seek redress, including invalidating the transactions that led to or could lead to the limitation of competition, obliging the acquirer or founder to perform activities to restore competition, and seeking the dissolution of the new company created as a result of reorganization. Any of these actions could materially adversely affect our business, financial condition, results of operations and prospects.

As of March 31, 2015, six of our companies were included by the FAS in its register of entities with a market share exceeding 35% in the relevant market or with a dominant position in a certain market, including:

Izhstal as controlling more than 35% but less than 65% of the market for graded high-speed steel and its substitute and more than 65% of the market for small shaped graded high-speed steel;

Vyartsilya Metal Products Plant as controlling more than 65% of the market of railroad transportation of cargo for third parties and companies on the track section from Vyartsilya village to Vyartsilya station;

Kuzbass Power Sales Company as controlling more than 50% of the electricity trading market in the Kemerovo region;

Mechel Energo (i) as controlling more than 50% of the electricity trading market within the administrative boundaries of the Kemerovo region except for the area of operations of Metallenergofinance OOO and Oboronenergosbyt OAO and (ii) as controlling more than 50% of the market of steam and heat energy generation in Chelyabinsk within the territory of Mechel Energo s heat grids;

- *Yakutugol* as controlling more than 65% of the coal market of the Sakha Republic (an administrative region of Russia in Eastern Siberia, also known as Yakutia); and

- *Moscow Coke and Gas Plant* as controlling more than 65% of the market for cargo transportation services on the company s rail siding in the Lenin district of the Moscow region from the Obmennaya station to the Zavodskaya station.

When our companies are included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position in a certain market, this does not by itself result in restrictions on the activities of such entities. However, these entities may be subject to additional FAS oversight by reason of their having been deemed to have a dominant market position.

In 2008, the FAS issued a number of directives to our companies placing certain restrictions on our business practices. On May 13, 2008, the FAS issued a directive ordering Mechel and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market, to fulfill the following requirements:

- to avoid the unjustified reduction of production volumes and product range at Southern Kuzbass Coal Company;

- to provide, to the extent possible, equal supply terms to all customers without discrimination against companies not forming part of this group of companies;

- not to restrict other companies from supplying coking coal to the same geographical area of operations; and

- to notify the FAS prior to any increase in domestic prices of coking coal, steam coal and coking coal concentrate, if such increase amounts to more than 10% of the relevant price used 180 days before the date such increase is planned to take place, with submission to the FAS of the financial and economic reasoning for the planned increase of prices.

In connection with the establishment of Mechel Mining, the subsidiary into which we consolidated certain of our mining assets, we received a directive from the FAS dated June 23, 2008, which contains requirements as to the activities of Mechel Mining and its subsidiaries Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market. The requirements are the same as those described above.

In August 2008, as a result of an antimonopoly investigation into the business of our subsidiaries Mechel Trading House, Southern Kuzbass Coal Company, Yakutugol and Mechel Trading, the FAS found them to have abused their dominant position in the Russian market for certain grades of coking coal concentrate. The FAS issued a directive requiring these subsidiaries and their successors to, among others, refrain from taking any action in the Russian market for certain grades of coking coal concentrate which would or may preclude, limit or eliminate competition and/or violate third parties interests, including fixing and maintaining a monopolistically high or low price, refusing or avoiding to enter into an agreement with certain buyers without good economic or technological reasons where the production or supply of the relevant grades of coking coal concentrate is possible and creating discriminatory conditions for buyers. Furthermore, the FAS initiated administrative proceedings against Mechel Trading House, Southern Kuzbass Coal Company and Yakutugol which resulted in fines being imposed on these companies in the total amount of 797.7 million rubles, which equals nearly 5% of these subsidiaries total sales of coking coal concentrate (including intra-group sales) for 2007.

In the event of a breach of the terms of business conduct set forth by the FAS, the FAS may seek to impose fines for violations of antimonopoly and administrative legislation. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sale of all goods, works and services on the market where such violation was committed, but not more than 2% of gross proceeds

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of sale of all goods, works and services. Russian legislation also provides for criminal liability for violations of antimonopoly legislation in certain cases. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The imposition of any such liability on us or our subsidiaries could materially adversely affect our business, financial condition, results of operations and prospects.

Negative publicity associated with any antimonopoly, administrative, criminal or other investigation or prosecution carried out with respect to our business practices, regardless of the outcome, could damage our reputation and result in a significant drop in the price of our shares and ADSs and could materially adversely affect our business, financial condition, results of operations and prospects.

We may be forced to dispose of our electricity assets as a result of change in Russian law.

Under Russian law, companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, in particular, through simultaneously owning assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale. Amendments to the law adopted in December 2011 introduced a new enforcement mechanism with respect to affiliated companies which do not comply with the law. The amendments allow the relevant governmental authorities to force the sale, first, of electricity generation and/or sale assets and, second, of electricity distribution assets of such affiliated entities. See Item. 4 Information on the Company Regulatory Matters Regulation of Russian Electricity Market.

Some entities in our group, including Southern Kuzbass Power Plant, Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant, Kuzbass Power Sales Company, Mechel Energo, Korshunov Mining Plant, Bratsk Ferroalloy Plant, Beloretsk Metallurgical Plant, Izhstal and Urals Stampings Plant, own assets both for electricity generation and/or sale and for electricity distribution.

We believe that the prohibition described above only applies if assets are both owned and directly used by an entity or affiliated entities.

During 2008 and 2009, we leased our electricity distribution assets to an unaffiliated third party, Electronetwork ZAO, which currently uses them to distribute electricity to us and other customers. Our entities are not involved, therefore, in electricity distribution activity. We believe that by leasing our electricity distribution assets to an unaffiliated third party and not using them for electricity distribution, we are not in violation of the law.

Given that there is no official guidance or court practice clarifying this matter, our interpretation of the law may not be upheld by Russian courts. We will closely follow further development of administrative and court practice in this area. We will vigorously defend our position, if it is challenged by the authorities. However there is a risk that the court may come to a view that we are in breach of the law and may order us to dispose of our electricity assets. Disposal of these assets may have a material adverse effect on our business and operations.

In the event that the minority shareholders of our subsidiaries were to successfully challenge past interested party transactions or do not approve interested party transactions in the future, we could be limited in our operational flexibility.

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly-owned subsidiaries have previously had other shareholders. We and our subsidiaries have carried out, and continue to carry out, transactions among our companies and affiliates, as well as transactions with other parties which may be considered to be interested party transactions under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature and value of the transaction and the parties involved. The provisions of Russian law defining which transactions must be approved as interested party transactions are subject to different interpretations, and these transactions may not always have been properly approved, including by former shareholders. We cannot make any assurances that our and our subsidiaries applications of these rules will not be subject to challenge by shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, Russian law requires a three-quarters majority of the voting stock present at a general shareholders meeting to approve certain matters, including, for example, charter amendments, reorganizations, major transactions involving assets in excess of 50% of the assets of the company, acquisition by the company of outstanding shares and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholders or supermajority approval. In the event that these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition, results of operations and prospects could be materially adversely affected.

Minority shareholder lawsuits, if resolved against our group companies, could have a material adverse effect on our financial condition and results of operations.

Russian corporate law allows minority shareholders holding as little as a single share in a company to have standing to bring claims against the company challenging decisions of its governing bodies. These features of Russian corporate law are often abused by minority shareholders, who can bring claims in local courts seeking injunctions and other relief for which, in some cases, we may not receive notice. Any such actions by minority shareholders, if resolved against our group companies, could have a material adverse effect on our business, financial condition, results of operations and prospects. See Item 8. Financial Information Litigation Russian securities litigation.

A majority of our employees are represented by trade unions, and our operations depend on good labor relations.

As of December 31, 2014, approximately 61% of all our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us and we consider our relations with our employees to be good, under Russian law unions have the legal right to strike and other Russian companies with large union representation periodically face interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relationships with our labor force and trade unions worsen in the future. We have signed the industry agreements for coal and ore mining and smelting industries and have renegotiated most related collective bargaining agreements. If we are unable to prolong collective bargaining agreements on similar conditions in the future or our employees are dissatisfied with the terms of the collective bargaining agreements and undertake any industrial action, it could have material adverse effects on our business, financial condition, results of operations and prospects.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant adverse event could result in substantial property loss and inability to rebuild in a timely manner or at all.

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our Russian production facilities are not insured, and we have no

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coverage for business interruption or for third-party liability, other than insurance required under Russian law, collective agreements, loan agreements or other undertakings. Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. We cannot assure you that the insurance we have in place is adequate for the potential losses and the liability we may suffer.

Since most of our production facilities lack insurance covering their property, if a significant event were to affect one of our facilities, we could experience substantial financial and property losses, as well as significant disruptions in our production activity, for which we would not be compensated by business interruption insurance.

Since we do not maintain separate funds or otherwise set aside reserves for these types of events, in case of any such loss or third-party claim for damages we may be unable to seek any recovery for lost or damaged property or compensate losses due to disruption of production activity. Any such uninsured loss or event may have a material adverse effect on our business, financial condition, results of operations and prospects.

If transactions, corporate decisions or other actions of members of our group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions, corporate decisions or other actions or the imposition of other liabilities on such group members.

Businesses of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to the incorporation of entities, share issuances, share disposals and acquisitions, mandatory buy-out offers, acquisition and valuation of property, including land plots, interested party transactions, major transactions, decisions to transfer licenses, meetings of governing bodies, other corporate matters and antimonopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and corporate decisions, restrictions on voting rights or the imposition of other liabilities. As applicable laws of the jurisdictions where our group companies are located are subject to varying interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions, and the invalidation of any such actions, transactions and corporate decisions or imposition of any restriction or liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

Terrorist attacks and threats, escalation of military activity, massive cyber attacks or incidents or damage to property as a result of military conflict, and government regulation in response to such attacks or acts of war may negatively affect our business, financial condition, results of operations and prospects.

Terrorist attacks and threats, escalation of military activity, massive cyber attacks or incidents or any damage to our property, such as Donetsk Electrometallurgical Plant in eastern Ukraine, resulting from military conflict, and an increase in government regulation in response to such attacks or acts of war may negatively affect our business. There could be delays or losses in transportation and deliveries of our products to our customers, increased government regulation and decreased sales due to disruptions in the businesses of our customers. It is possible that any such occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have used certain information in this document that has been sourced from third parties.

We have sourced certain information contained in this document from independent third parties, including private companies, government agencies and other publicly available sources. We believe these sources of information are reliable and that the information fairly and reasonably characterizes the industry in countries where we operate. However, although we take responsibility for compiling and extracting the data, we have not independently verified this information. In addition, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries.

Risks Relating to Our Shares and the Trading Market

International sanctions relating to the crisis in Ukraine could adversely impact the trading market for our shares and ADSs.

The United States and the European Union introduced sanctions against certain Russian companies and individuals as a result of the crisis in Ukraine. If current sanctions are maintained and/or further sanctions introduced, the trading market for our shares and ADSs and the rights of our shareholders and ADS holders could be materially adversely affected. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

In particular, if any of our existing or future clients, suppliers or other counterparties become subject to or directly impacted by such sanctions, this may compel shareholders and ADS holders to sell their shares and ADSs so as to remain in compliance with their respective internal rules on investments or with any applicable laws or regulations (which, due to the recent nature of the sanctions, are subject to wide-ranging interpretation). Such sales may decrease the market value of our shares and ADSs and potentially inhibit other investors from purchasing our shares and ADSs, thereby causing the trading market for our shares and ADSs to become less liquid.

Moreover, should any sector in which we operate become subject to so-called sectoral sanctions, in either of the United States or the European Union, the relevant clearing systems, brokers and other market participants as well as the New York Stock Exchange (**NYSE**) may refuse to permit trading in or otherwise facilitate transfers of the ADSs. As a result, applicable law or internal compliance requirements may prevent certain ADS holders from continuing to hold the ADSs and potential ADS holders may be prohibited from purchasing the ADSs. Any of the above could significantly reduce the trading market for, and materially adversely affect the value of, our shares and ADSs.

The price of our shares and ADSs could be volatile and could drop unexpectedly, making it difficult for investors to resell our shares or ADSs at or above the price paid.

The price at which our shares and ADSs trade is influenced by a large number of factors, some of which are specific to us and our operations and some of which are related to the mining and steel industries and equity markets in general. As a result of these factors, investors may not be able to resell their shares or ADSs at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of our shares and ADSs:

- investor perception of us as a company;
- actual or anticipated fluctuations in our revenues or operating results;

announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;

changes in our dividend policy, which could result from changes in our cash flow and capital position;

sales of blocks of our common shares, common ADSs, preferred shares or preferred ADSs by significant shareholders, including the Justice persons;

price and timing of any refinancing of our indebtedness;

potential litigation involving us;

changes in financial estimates and recommendations by securities research analysts;

fluctuations in Russian and international capital markets, including those due to events in other emerging markets;

the performance of other companies operating in similar industries;

regulatory developments in the markets where we operate, especially Russia and the European Union;

international political and economic conditions, including the effects of fluctuations in foreign exchange rates, interest rates and oil prices and other events such as terrorist attacks, military operations, changes in governments and relations between countries, international sanctions, particular those currently in place against certain Russian companies and individuals, natural disasters and the uncertainty related to these developments;

news or analyst reports related to markets or industries in which we operate; and

general investor perception of investing in Russia.

As a result of deteriorating market conditions in 2014 for our main products, together with our high leverage, our shares and ADSs price dropped significantly in 2014, and ADSs started trading below one U.S. dollar. As of October 24, 2014, the 30 trading-day average closing price of Mechel ADSs amounted to $0.99 and as a result Mechel ADSs became noncompliant with one of the NYSE continuous listing standards, regarding which we received official notice from the NYSE on October 30, 2014. According to NYSE rules, we had six months from the date of receipt of the NYSE notice to bring our share price back into compliance with the listing standards. During this six-month period, our shares continued to trade on the NYSE.

On January 29, 2015, the closing price for Mechel ADSs surpassed the $1.00 threshold and continued to grow throughout February 2015. On February 27, 2015, the 30 trading-day average closing price of ADSs amounted to $1.26 per ADS. As a result, we received official notice from the NYSE on March 2, 2015 that our ADSs came back into compliance with the listing standards.

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries. Under Russian law, dividends may be declared and paid only out of net profits calculated under Russian accounting standards and as long as certain conditions have been met, including if the value of the net assets, calculated under Russian accounting standards, is not less (and would not become less as a result of the proposed dividend payment) than the sum of the charter capital, the reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares. See Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Description of Capital Stock Dividends. Currently, some of our subsidiaries do not meet this criteria and cannot approve payment of, or pay dividends. See Risks Relating to the Russian Federation One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.

Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to taxes, statutory restrictions, retained earnings criteria, and covenants in our subsidiaries financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. See note 19 to the consolidated financial statements.

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Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

Effective January 1, 2013, a new system of recording the depositary s rights to the shares underlying depositary receipts was introduced by the Federal Law No. 415-FZ of December 7, 2011, as amended on December 29, 2012 (**Federal Law No. 415-FZ**). Pursuant to the new system, the underlying shares are no longer recorded at the depositary s owner s account opened with a Russian custodian holding a depo account of nominee holder with the issuer s shareholder register. Instead, the underlying shares are now recorded at a depo account of depositary programs opened with a Russian custodian which in its turn has a depo account of nominee holder opened with the central depositary. On November 6, 2012, the FFMS granted CJSC National Settlement Depositary (**NSD**) the status of Russian central depositary. Starting from November 6, 2013, the depo accounts of depositary programs should be opened for depositaries, and shares represented by depositary receipts should be recorded in depo accounts of depositary programs.

In addition to the new recording system, the Federal Law No. 415-FZ also sets forth new obligations for a depositary to disclose information on depositary receipt owners in order to exercise voting rights and to receive dividends with respect to the shares represented by depositary receipts. The FFMS by its Order No. 13-7/pz-n dated February 5, 2013 sets forth the requirements for the provision of information about the depositary receipt owners. Such information is provided to the issuer in the form of a list of persons who exercise the rights under the depositary receipts. The list is provided to the issuer by the foreign depositary which opens the depo account of depositary programs. The list is provided for the preparation and holding of a shareholders meeting. Furthermore, any obligations of the depositary to disclose information on depositary receipt owners in order to receive dividends were abolished effective January 1, 2014 pursuant to the Federal Law No. 282-FZ of December 29, 2012, as amended (**Federal Law No. 282-FZ**). Under the Federal Law No. 282-FZ, the payment of dividends on the shares represented by depositary receipts is made to the foreign depositary which opens the depo account of depositary programs.

Currently, it is not clear whether the term depositary receipt owner means a holder registered on the records of the depositary, a securities intermediary or a beneficial owner of a depositary receipt. As a result, the scope of the above reporting obligations, which may affect the rights of our ADS and GDS holders, also remains uncertain. We cannot assure you that the Federal Law No. 415-FZ and the other regulations by the CBR, to which the powers of the FFMS were delegated, will be compatible with the way in which depositary receipt programs were customarily operated in the past or with foreign confidentiality regulations, or that the new requirements will not impose additional burdens upon the depositary, ADS and GDS holders or their respective securities intermediaries, any of which may cause investments in our ADSs to be seen as less attractive.

In addition, the Federal Law No. 282-FZ requires the foreign depositary to take all reasonable steps to provide information on depositary receipt owners to the issuer, state arbitrazh courts, the CBR and governmental investigative authorities upon their request, and depositary receipt owners may not refuse to provide such information in response to the depositary if so requested. The CBR is entitled to demand the depositary to cure any breach of such disclosure requirements, and if the depositary fails to cure, the CBR may suspend or limit any operations with depo accounts of depositary receipt program for up to six months with respect to the number of securities not exceeding the number of securities for which the obligation to provide information has not been fulfilled. It is unclear how the CBR will use these new regulatory powers. Any suspension of or limitation on our ADS or GDS programs could have a material adverse effect on the value of the ADSs.

The depositary may be required to take certain actions due to Russian law requirements which could adversely impact the liquidity and the value of the shares and ADSs.

If at any time the depositary believes that the shares deposited with it against the issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) a percentage of shares which exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, causing *pro rata* cancellation of ADSs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to so comply. Any such circumstances may affect the liquidity and the value of the shares and ADSs.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the relevant deposit agreement for the ADSs and relevant requirements of Russian law.

ADS holders have no direct voting rights with respect to the shares represented by the ADSs. They can only exercise voting rights with respect to the shares represented by ADSs in accordance with the provisions of the deposit agreements relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps which are involved. For example, the Joint-Stock Companies Law and our charter require us to notify shareholders not less than 30 days prior to the date of any meeting of shareholders and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors, *inter alia*, via (i) publication of a notice in the Russian official newspaper *Rossiyskaya Gazeta* and disclosure on our website at *www.mechel.ru* or (ii) disclosure on our website at *www.mechel.ru*. Our common shareholders, as well as our preferred shareholders in cases when they have voting rights, are able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

For ADS holders, in accordance with the deposit agreements, we will provide the notice to the depositary. The depositary has in turn undertaken, as soon as practicable thereafter, to mail to ADS holders notice of any such meeting of shareholders, copies of voting materials (if and as received by the depositary from us) and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then timely instruct the depositary how to vote their shares. As a result of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting.

In addition, although securities regulations expressly permit the depositary to split the votes with respect to shares underlying the ADSs in accordance with instructions from ADS holders, there is little court or regulatory guidance on the application of such regulations, and the depositary may choose to refrain from voting at all unless it receives instructions from all ADS holders to vote the shares in the same manner. Holders of ADSs may thus have significant difficulty in exercising voting rights with respect to the shares underlying the ADSs. There can be no assurance that holders and beneficial owners of ADSs will: (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the depositary; (2) receive notice to enable the timely cancellation of ADSs in respect of shareholder actions; or (3) be given the benefit of dissenting or minority shareholders rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

ADS holders may be unable to repatriate their earnings.

Dividends that we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles. Such dividends will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the fees and charges of, and expenses incurred by, the depositary, together with taxes withheld and any other governmental charges. The ability to convert rubles into U.S. dollars is subject to the currency markets. Although there is an active market for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the functioning of this market in the future is not guaranteed and, in particular may be negatively impacted by any future imposition of exchange controls imposed by the Russian authorities in an effort to stabilize the value of the ruble.

ADS holders may not be able to benefit from the United States-Russia income tax treaty.

Under Russian tax legislation, dividends paid to a non-resident holder of shares of a Russian company generally will be subject to a 15% withholding tax. This tax rate may potentially be reduced to 10% or 5% for U.S. holders of the shares that are legal entities and organizations and to 10% for U.S. holders of the shares that are individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the **United States-Russia income tax treaty**), provided a number of conditions are satisfied. In connection with the enactment of amendments to Russian tax legislation, effective from January 1, 2014, the reduced tax rate of 5% established in accordance with certain provisions of the United States-Russia income tax treaty does not apply on dividend payments under ADSs. The general rate of 10% which is established by the treaty and does not account for benefits applies, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied. Thus, the tax agent may be obliged to withhold tax at higher non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States-Russia income tax treaty. ADS holders may apply for a refund of a portion of the tax withheld under an applicable tax treaty, however, this process may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund. See Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations for additional information.

Capital gains from the sale of ADSs may be subject to Russian profit tax.

Under Russian tax legislation, gains realized by foreign organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, with the exception of shares that are traded on an organized securities market, may be subject to Russian profit tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. Gains arising from the sale on foreign exchanges (foreign market operators) of securities or derivatives circulated on such exchanges are not considered Russian source income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition on foreign stock exchanges of the foregoing types of securities listed on these exchanges are not subject to taxation in Russia.

Gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by U.S. holders who are individuals not resident in Russia for tax purposes will not be considered Russian source income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by U.S. holders who are individuals not resident in Russia for tax purposes may be subject to a withholding tax in Russia based on an annual tax return, which they may be required to submit with the Russian tax authorities.

Holders of ADSs may have limited recourse against us and our directors and executive officers because most of our operations are conducted outside the United States and most of our directors and all of our executive officers reside outside the United States.

Our presence outside the United States may limit ADS holders legal recourse against us. Mechel is incorporated under the laws of the Russian Federation. Most of our directors and executive officers reside outside the United States, principally in Russia. A substantial portion of our assets and the assets of most of our directors and executive officers are located outside the United States. As a result, holders of our ADSs may be limited in their ability to effect service of process within the United States upon us or our directors and executive officers or to enforce in a U.S. court a judgment obtained against us or our directors and executive officers in jurisdictions outside the United States, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for holders of ADSs to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to investments in the ADSs. The deposit agreements provide for actions brought by any party thereto against us to be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, provided that any action under the U.S. federal securities laws or the rules or regulations promulgated thereunder may, but need not, be submitted to arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors and Russian courts inability to enforce such orders.

We and the Justice persons may offer additional preferred shares and preferred ADSs in the future, and these and other sales may adversely affect the market price of the preferred shares and preferred ADSs.

As of the date of this document, of the 138,756,915 issued preferred shares, 40% are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by the public and may be held by James C. Justice II, James C. Justice III, James C. Justice Companies Inc. and Jillean L. Justice (collectively, the **Justice persons**). The Justice persons disposed or may dispose of all or part of the remaining preferred shares they held through one or more offerings or broker trades. It is also possible that we may decide to offer additional preferred shares and preferred ADSs in the future, including preferred shares held by Skyblock Limited. Additional offerings or sales of preferred shares and preferred ADSs by us or the Justice persons, or the public perception that such offerings or sales may occur, could have an adverse effect on the market price of our preferred shares and preferred ADSs.

Risks Relating to the Russian Federation

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in developed or other emerging markets could have a material adverse effect on our business and could cause the value of our shares and ADSs to fluctuate widely.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that the value of securities of Russian companies is subject to rapid and wide fluctuations due to various factors. For example, the military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia and the current situation in Ukraine and Crimea resulted in significant price declines in securities of Russian companies and capital outflows from Russia. The escalation of the present situation or the emergence of new tensions between Russia and other countries may lead to further reductions in the price of Russian securities. We cannot assure you that any such developments will not have a material adverse effect on our business, financial condition, results of operations and prospects, and the value of our shares and ADSs is expected to be highly volatile while the crisis in Ukraine remains unresolved and/or the Russian economy continues to deteriorate.

Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set forth in this document may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to affect adversely the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face liquidity constraints as foreign funding sources become less available. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability.

Russia has endured ethnic, religious, historical and other divisions, which have, on occasion, given rise to tensions and, in certain cases, diplomatic and military conflict, both internally and with other countries.

For example, the Russian Federation was involved in armed conflict with Georgia in 2008, and differing views on the Georgia conflict have had an impact on the relationship between the Russian Federation, the European Union, the United States and certain former Soviet Union countries. In addition, the relationship between Ukraine and the Russian Federation has in the recent past been subject to significant strain for a number of reasons, including Ukraine s failure to pay and accumulation of payment arrears relating to the supply of energy resources, Ukraine s possible accession to NATO and the European Union and port access by Russian warships. More recently, Russia s relations with Ukraine have reached an historic post-Soviet low point following renewed political instability in Ukraine that resulted in the departure from office of Mr. Yanukovich (Ukraine s former president), Russia s role in the subsequent accession of Crimea and Sevastopol to Russia, and widespread accusations that Russia is actively involved in or otherwise supporting insurgents in eastern Ukraine in their struggle against Ukraine s central authorities. This has resulted in a substantial deterioration in Russia s relations with the United States, the European Union and other countries such as Canada, Japan and Australia, and has led to the imposition of sanctions against certain Russian individuals and entities and has contributed to certain volatility in the Russian economy and a deterioration in Russia s macroeconomic condition and prospects. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. If such tensions intensify or new tensions emerge between the Russian Federation and Ukraine, Georgia, the European Union, the United States or any other countries, leading potentially to the imposition of further trade sanctions or embargoes, the Russian economy will likely experience further volatility and deterioration.

Many of the aforementioned events have adversely affected the Russian economy and the Russian financial and banking markets, increased capital outflows, as well as worsened general business and investment climate in Russia. The Russian stock exchanges have experienced heightened volatility, Russia s credit markets have tightened, and the exchange rate of the ruble against the U.S. dollar and other currencies has depreciated significantly in recent months. See Risks Relating to Our Financial Condition and Financial Reporting Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations.

In part as a result of political tensions, international sanctions, ruble volatility and the drop in the oil price, in April 2014, Standard & Poor s lowered the Russian Federation s foreign currency rating to BBB-/A-3 and local currency (long- and short-term) rating to BBB/A-2 , both with a negative outlook. In October 2014, Moody s Investors Service lowered Russia s government bond rating to Baa2 from Baa1, further downgrading it in January 2015 to Baa3, with a negative outlook. In January 2015, Fitch downgraded the Russian Federation s long-term foreign and local currency

Issuer Default Rating to BBB- with a negative outlook.

The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

In connection with the ongoing events in Ukraine, the United States and the European Union (as well as other nations, such as Canada, Switzerland, Australia and Japan) have imposed sanctions on certain Russian and Ukrainian persons and entities. The prohibitions in the countries that imposed the new sanctions regimes generally apply to nationals of those countries or any action taken within the territory of those countries, and may, particularly, in the case of U.S. sanctions, have extraterritorial effect on transactions with a direct or indirect connection to the jurisdiction.

Starting from March 2014, the United States introduced sanctions against Russian and Ukrainian persons and entities perceived to have been involved in the crisis in Ukraine, certain senior officials of the Russian Federation, or vocal supporters of Russia s position in the Ukrainian crisis. Pursuant to these orders, a number of prominent Russian and Ukrainian government officials, politicians and businessmen have been sanctioned, blocking all of their property within the United States, denying them entry into the United States and effectively foreclosing them from using the United States economic and financial system.

In March 2014, the United States also laid the groundwork for so-called sectoral sanctions on Russia, whereby entities in certain sectors of the Russian economy are designated as potential targets for sanctions. Currently, such sectors include defense and related materiel, financial services, and energy. The relevant sectoral sanctions currently provide for restrictions on new debt or equity transactions for designated entities in the financial sector, restrictions on new debt transactions for designated entities in the energy sector, restrictions on new debt transactions for designated entities in the defense sector, and restrictions on the provision of goods, services, or technology in support of Russian Arctic offshore, deepwater, or shale projects with the potential to produce oil. The United States has also significantly tightened export controls on the provision of U.S.-origin goods that may be used in the Russian defense or energy sectors.

Finally, in December 2014, the United States introduced sanctions barring transactions involving Crimea within U.S. jurisdictions.

In addition to the actions above, in December 2014, the U.S. Congress gave the President authority to introduce so-called secondary sanctions against non-U.S. companies engaged in certain activities in support of Russian Arctic offshore, deepwater, or shale oil projects, certain financial transactions in support of such projects or of U.S.-sanctioned Russian or Ukrainian persons, or certain Russian arms sales. Pursuant to secondary sanctions, non-U.S. companies engaged in targeted conduct, even entirely outside U.S. jurisdiction, may themselves become the subject of U.S. sanctions.

The European Union s sanctions generally have a similar effect to the U.S. sanctions and involve travel restrictions and the freezing in the European Union of funds and economic resources of the designated persons, as well as export restrictions with respect to equipment and technology for Arctic, deepwater and shale oil projects, and the prohibition on provision of direct or indirect financing to the designated persons.

In June 2014, the European Union imposed a general ban on the import of goods originating in Crimea/Sevastopol, followed by trade and investment restrictions for Crimea/Sevastopol in July 2014. These trade and investment restrictions currently prohibit certain new infrastructure investments in the transport, telecommunications and energy sectors, as well as investments in the oil, gas and mineral resources industries in Crimea/Sevastopol; they also ban direct or indirect technical assistance or financial services in connection with such investments. Further, in December 2014, the European Union introduced a ban on investments in real estate and businesses in Crimea and Sevastopol, on the export of a wide range of goods and technology to Crimean companies or for use in Crimea, and on services related to tourism activities in Crimea and Sevastopol.

In July 2014, the European Union imposed a ban on transactions with transferable securities and money market instruments with a maturity exceeding 90 days issued after August 1, 2014 by the largest Russian financial institutions including Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank and their affiliates, subsequently lowering the threshold to 30 days for instruments issued after September 12, 2014. In September 2014, the European Union imposed an additional ban on transactions in transferable securities and money market instruments with a maturity exceeding 30 days, issued after September 12, 2014 by six Russian defense and energy companies including OPK Oboronprom, United Aircraft Corporation, Uralvagonzavod, Rosneft, Transneft and Gazprom neft and their affiliates. Furthermore, the European Union imposed a ban on the provision of new loans (either directly or indirectly) with a maturity exceeding 30 days to the aforementioned Russian entities and their affiliates after September 12, 2014.

Since August-September 2014, the European Union has also imposed restrictions on the transfer of certain technologies for the oil and gas industry in Russia and certain goods and services for deep water, Arctic or shale oil projects in Russia.

No individual or entity within our group has been designated for sanctions under any of these authorities. Additional designations may be made, or additional categories of sanctions may be created, at any time, and we can give no assurance that any member of our group, or individuals holding positions in our group, will not be affected by future sanctions designations. The U.S. regulations identify metals and mining as an example of a sector that may be identified for sectoral sanctions, which could result in the imposition of some or all of the restrictions described above; however, at this time, no such identification has been made, nor has Mechel or any of its directors and officers been designated by the U.S. Department of the Treasury Office of Foreign Assets Control (**OFAC**). U.S. law also provides that persons that have materially assisted, sponsored or provided financial, material or technological support for, or goods or services to or in support of any targeted person or activity may be designated for sanctions. Mechel, like a large number of Russian companies, has commercial relationships with entities that are subject to U.S. sanctions. Finally, if U.S. sanctions were imposed on persons or entities collectively owning 50% or more of any group entity, such sanctions would also apply to the entity and its subsidiaries. If we become subject to U.S. or E.U. sanctions, such sanctions will likely have a material adverse impact on our business, financial condition, results of operations or prospects. For example, we might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. dollars, raise funds from international capital markets, acquire equipment from international suppliers, or access our assets held abroad. Moreover, investors in our shares or ADSs may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to our shares or ADSs, either because the investor or (in the case of ADSs) the depository is subject to the jurisdiction of an applicable sanctions regime, which could make such shares or ADSs partially or completely illiquid and have a material adverse effect on their market value.

Two entities within our group are U.S. persons (such entities being technical companies within our transport division that we expect will be liquidated in 2015). Some other entities within our group are E.U. persons. These entities are therefore required to comply with the U.S. and E.U. sanctions, respectively, including not conducting business with any sanctioned persons. Most of the group entities, however, are neither U.S. persons nor E.U. persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or E.U. jurisdiction. However, the United States takes a broad view with respect to its sanctions jurisdiction, and there can be no assurance that compliance issues under applicable U.S. and/or E.U. sanctions laws and regulations will not arise with respect to us or our personnel. In particular, because the above discussed sanctions are very recent, their scope and consequences remain subject to interpretation by competent authorities and courts in the United States and the

European Union, and no assurance can be given that a broader interpretation may not affect any of the group entities. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant group entities to contract with U.S. and/or E.U. governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or E.U. law, the imposition of significant fines, and negative publicity and reputational damage. In addition, should our dealings with sanctioned counterparties become material, our ability to transact with U.S. or E.U. persons could be affected. As a result, our ability to raise funding from international financial institutions or the international capital markets may be inhibited.

The sanctions imposed by the United States and the European Union in connection with the Ukrainian crisis so far have had an adverse effect on the Russian economy, to which we are exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. See Risks Relating to the Russian Federation Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability. The governments of the United States and certain E.U. Member States, as well as certain E.U. officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. For example, the United States has authority to impose secondary sanctions threatening adverse action against companies outside U.S. jurisdiction participating in certain Russian oil projects, which could deter those companies from investing in the Russian economy; additional secondary sanctions could be adopted that could affect the willingness of companies acting outside U.S. jurisdiction to deal with Russia and Russian companies. There have also been proposals to cut off Russia from the international SWIFT payment system and Russia s counter-proposals to disrupt international payment systems, which could disrupt ordinary banking services in Russia and any cross-border trade.

Further confrontation in Ukraine and any escalation of related tensions between Russia and the United States and/or the European Union, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks to sustain required liquidity levels and comply with their financial obligations. These impacts could be more severe than those experienced to date. In particular, should either the United States or the European Union expand their respective sanctions on our existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in our dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between us and the designated persons could occur, and substantial legal and other compliance costs and risks on our business operations could emerge. All of the above could have a material adverse impact on our business, financial condition, results of operations or prospects.

The Ukrainian economy is also facing significant risks during this period of uncertainty. In the year ended December 31, 2014, revenues from exports to Ukraine were $105.5 million, or 1.6% of our total revenues, which could decrease in the current year. As a consequence, any adverse effect on the Ukrainian economy could have an adverse impact on our financial condition and results of operations.

Economic risks

Economic instability in Russia could adversely affect our business and the value of our shares and ADSs.

The Russian economy has been subject to abrupt downturns in the past. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by a major banking crisis in the Russian banking sector after the events of August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product (**GDP**), a relatively stable ruble, strong domestic demand, rising real wages and reduced rates of inflation. However, these trends were interrupted by the global financial crisis in late 2008, which led to a substantial decrease in the GDP s growth rate, ruble depreciation and a decline in domestic demand. The Russian government took certain anti-crisis measures using the stabilization fund and hard currency reserves in order to soften the impact of the economic crisis on the Russian economy and support the value of the ruble. As a result, following a decline in 2009, Russian GDP grew by 4.5% in 2010, 4.3% in 2011, 3.4% in 2012 and 1.3% in 2013, according to Rosstat. More recently, the economic slowdown in emerging market economies, including Russia, as well as political and other disturbances in emerging markets have introduced additional uncertainty in the overall outlook for growth of the global economy. Growth in the Russian economy has slowed down considerably, recording GDP growth in 2014 of 0.6%, according to Rosstat, as a result of an array of factors, including negative investor sentiment arising from the disturbances in eastern Ukraine, international sanctions imposed on Russian companies and individuals, substantial depreciation of the ruble against major world currencies and the precipitous drop in oil prices. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. According to the Ministry of Economic Development of the Russian Federation, the Russian economy is expected to contract by 3.0% in 2015. Further economic instability in Russia could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

The Russian banking system is still developing, and another banking crisis or international sanctions could place severe liquidity constraints on our business.

A substantial portion of our loans are from Russian banks, including state-owned banks such as Sberbank, VTB Bank and Gazprombank, who in recent years have extended the maturity of our loans, waived breaches of financial covenants and reset our financial covenants to give us more flexibility to operate our business and we have requested a further extension of grace periods under existing debts and repayment tenors. In addition, Vnesheconombank, another Russian state-owned bank, had provided a project financing for the development of the Elga deposit. Such banks may not exhibit the same degree of flexibility with respect to our financings as they have in the past due to the imposition of international sanctions against them. Moreover, we rely on the Russian banking system to complete various day-to-day fund transfers and other actions required to conduct our business with customers, suppliers, lenders and other counterparties.

While the impact of the 2008-2009 global financial crisis on the Russian banking system was contained by the actions by the CBR at that time, the risk of further instability remains high due to the continuing weakness of the Russian economy and the strong likelihood of a recession in the near future. The Russian banking system suffers from international sanctions imposed against state-owned banks, weak depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and related party transactions. Risk management, corporate governance and transparency and disclosure remain below international best practices. In the global financial crisis, Russian banks were faced with a number of problems simultaneously, such as a withdrawal of deposits by customers, payment defaults by borrowers and deteriorating asset values and ruble depreciation. Russian banks faced and continue to face serious mismatches in their liabilities (consisting in large part of foreign debt) and assets (loans to Russian borrowers and investments in Russian assets and securities). The existing sentiment towards Russian banks could continue to worsen in the near future due to the impact of international sanctions discussed above. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

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These weaknesses in the Russian banking sector make the sector more susceptible to market downturns or economic slowdowns including due to defaults by Russian borrowers that may occur during such market downturn or economic slowdown. A banking or liquidity crisis or the bankruptcy or insolvency of the banks which lend to us or in which we hold our funds or use for banking transactions could have a material adverse effect on our business, results of operations, financial condition and prospects.

The infrastructure in Russia needs significant improvement and investment, which could disrupt normal business activity.

The infrastructure in Russia largely dates back to the Soviet era and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. The deterioration of the infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. These factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

The Russian economy and the value of our shares and ADSs could be materially adversely affected by fluctuations in the global economy.

The global economic crisis, social and political instability in some Middle East countries and recently in Ukraine and other negative developments in various countries have resulted in increased volatility in the capital markets in many countries, including Russia. As has happened in the past, financial problems in emerging market economies or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. In addition, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil or international sanctions against the Russian oil industry could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Such has occurred in recent months as crude oil prices have dropped by nearly 49.2% between January 1, 2014 and January 1, 2015 and by an additional 1.4% in the first quarter of 2015 (according to Intercontinental Exchange), the Russian financial markets have experienced significant volatility in the second half of 2014 and expect to continue experiencing such volatility in 2015 and the ruble s value against major world currencies has fallen significantly. See Risks Relating to Our Financial Condition and Financial Reporting Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations. Russia is also one of the world s largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of international sanctions, tariffs and/or antidumping measures by any of its principal export markets.

As many of the factors that affect the Russian and global economies affect our business and the business of many of our domestic and international customers, our business could be materially adversely affected by a downturn in the Russian economy or the global economy. In addition to a reduction in demand for our products, we may experience increases in overdue accounts receivable from our customers, some of whom may face liquidity problems and potential bankruptcy. Our suppliers may raise their prices, eliminate or reduce trade financing or reduce their output. A decline in product demand, a decrease in collectibility of accounts receivable or substantial changes in the terms of our suppliers pricing policies or financing terms, or the potential bankruptcy of our customers or contract counterparties may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the net assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 24 to the consolidated financial statements.

Political and social risks

Political and governmental instability could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, protests against the results of 2011 and 2012 parliamentary and presidential elections, corruption and the government in general.

Tensions in Russia s relations with other countries and world bodies or conflicts between the government and powerful business groups or among such business groups could disrupt or reverse political, economic and regulatory reforms and also lead to restrictions on our business and a negative impact on Russia s economy and investment climate. Any disruption or reversal of reform policies or economic downturn could lead to social, political or governmental instability or the occurrence of conflicts between various groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Corruption and negative publicity could negatively impact our business and the value of our shares and ADSs.

The local press and international press have reported high levels of corruption in Russia, including unlawful demands by government officials and the bribery of government officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. In addition, there are reports of the Russian media publishing disparaging articles in return for payment. From time to time, we are the subject of press reports that we believe contain false information about our business and financial condition as well as our controlling shareholder. If we, our managers, controlling shareholder or counterparties are accused of involvement in government corruption or are otherwise the subject of libelous reports in the press, the resulting negative publicity could disrupt our ability to conduct our business and impair our relationships with customers, suppliers, creditors and other parties, which could have a material adverse effect on our business, financial condition and results of operations and the value of our shares and ADSs and impede our efforts to restructure our indebtedness.

Shortage of skilled Russian labor could materially adversely affect our business, financial condition, results of operations and prospects.

Currently the Russian labor market suffers from a general shortage of skilled and trained workers, and we compete with other Russian companies to hire and retain such workers. In Russia, the working age population has declined due to a relatively low birth rate at the end of the 1980s and through the early 1990s. As of January 1, 2015, Rosstat estimated Russia s population at 146.3 million, a decline of 2.2 million from 1992. In recent years, declines in population levels slowed down as a result of an increase in migration and a reduction in the natural decline of the population; in 2014, the population level in fact increased. However, the birth rate remains relatively low, which together with the aging and high mortality of the population, is the main problem of Russia s demographic development. Russia s working age population is estimated to decline by 10-13 million by 2025. A shortage of skilled Russian labor combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

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Legal risks and uncertainties

Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects.

Most of the existing subsoil licenses in Russia date from the Soviet era. During the period between the dissolution of the Soviet Union in August 1991 and the enactment of the first post-Soviet subsoil licensing law in the summer of 1992, the status of subsoil licenses and Soviet-era mining operations was unclear, as was the status of the regulatory authority governing such operations. The Russian government enacted the Procedure for Subsoil Use Licensing on July 15, 1992, which came into effect on August 20, 1992 (the **Licensing Regulation**). As was common with legislation of this time, the Licensing Regulation was passed without adequate consideration of transition provisions and contained numerous gaps. In an effort to address the problems in the Licensing Regulation, the Ministry of Natural Resources (the **MNR**) issued ministerial acts and instructions that attempted to clarify and, in some cases, modify the Licensing Regulation. Many of these acts contradicted the law and were beyond the scope of the MNR s authority, but subsoil licensees had no option but to deal with the MNR in relation to subsoil issues and comply with its ministerial acts and instructions. Thus, it is possible that licenses applied for and/or issued in reliance on the MNR s acts and instructions could be challenged by the prosecutor general s office as being invalid. In particular, deficiencies of this nature subject subsoil licensees to selective and arbitrary governmental claims.

Legislation on subsoil rights still remains internally inconsistent and vague, and the regulators acts and instructions are often arguably inconsistent with legislation. Subsoil licensees thus continue to face the situation where both failing to comply with the regulator s acts and instructions and choosing to comply with them places them at the risk of being subject to arbitrary governmental claims, whether by the regulator or the prosecutor general s office. Our competitors may also seek to deny our rights to develop certain natural resource deposits by challenging our compliance with tender rules and procedures or compliance with license terms.

An existing provision of the law that a license may be suspended or terminated if the licensee does not comply with the significant or material terms of a license is an example of such a deficiency in the legislation. The MNR (including its successor agency since May 13, 2008, the Ministry of Natural Resources and Ecology) has not issued any interpretive guidance on the meaning of these terms. Similarly, under Russia s civil law system, court decisions interpreting these terms do not have any precedential value for future cases and, in any event, court decisions in this regard have been inconsistent. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used to challenge our subsoil rights selectively and arbitrarily.

Moreover, during the tumultuous period of the transformation of the Russian planned economy into a free market economy in the 1990s, documentation relating to subsoil licenses was not properly maintained in accordance with administrative requirements and, in many cases, was lost or destroyed. Thus, in many cases, although it may be clearly evident that a particular enterprise has mined a licensed subsoil area for decades, the historical documentation relating to its subsoil licenses may be incomplete. If, through governmental or other challenges, our licenses are suspended or terminated we would be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects.

Weaknesses relating to the Russian legal system and legislation create an uncertain investment climate.

Russia is still developing the legal framework required to support a market economy. The following weaknesses relating to the Russian legal system create an uncertain investment climate and result in risks with respect to our legal and business decisions:

inconsistencies between and among the Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;

- conflicting local, regional and federal rules and regulations;
- rapid enactment of many laws and regulations resulting in their ambiguities and inconsistencies;
- the lack of fully developed corporate and securities laws;
- substantial gaps in the regulatory structure due to the delay or absence of implementing legislation;
- changes in the Russian court system, in particular, the merger of the Supreme Arbitrazh Court with the Russian Supreme Court;
- the relative inexperience of judges in interpreting legislation and contradictory judicial interpretations of the law;
- the lack of full independence of the judicial system from commercial, political and nationalistic influences;
- difficulty in enforcing court orders;
- a high degree of discretion or arbitrariness on the part of governmental authorities; and
- still-developing bankruptcy procedures that are subject to abuse. See Risks Relating to Our Financial Condition and Financial Reporting We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

All of these weaknesses could affect our ability to protect our rights under our licenses and under our contracts, or to defend ourselves against claims by others. We make no assurances that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, under Russian corporate law, if a Russian company s net assets calculated on the basis of Russian accounting standards at the end of its third or any subsequent financial year, fall below its share capital, the company must decrease its share capital to the level of its net assets value or initiate a voluntary liquidation. In addition, if a Russian company s net assets calculated on the basis of Russian accounting standards at the end of its second or any subsequent financial year, fall below the minimum share capital required by law, the company must initiate voluntary liquidation not later than six months after the end of such financial year. If the company fails to comply with either of the requirements stated above within the prescribed time limits, the company s creditors may accelerate their claims and demand reimbursement of applicable damages, and governmental authorities may seek involuntary liquidation of the company. Certain Russian companies have negative net assets mainly due to very low historical asset values reflected on their balance sheets prepared in accordance with Russian accounting standards; however, their solvency, i.e., their ability to pay debts as they become due, is not otherwise adversely affected by such negative net assets. Currently, we have the following subsidiaries with total liabilities greater than total assets: Mechel-Steel Management, Mechel Trading House, Port Kambarka, VtorResource, VtorResource-Yuzhny, Thermal Grid Company of Southern Kuzbass, Mechel Construction Materials, Yakutugol, Metallurgshakhtspetsstroy, Management Metallurgical Equipment Repair, Shakhtspetsstroy, Romantika, Sky-Extra, Mechel Engineering, Mechel-Remservice, Maritime Cargo Shipping, Mecheltrans Vostok, Elgaugol and Trans-Auto.

If involuntary liquidation were to occur, then we may be forced to reorganize the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition, results of operations and prospects.

Selective government action could have a material adverse effect on the investment climate in Russia and on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Governmental authorities in Russia have a high degree of discretion. Press reports have cited instances of Russian companies and their major shareholders being subjected to government pressure through prosecutions of violations of regulations and legislation which are either politically motivated or triggered by competing business groups.

In mid-2008, Mechel came under public criticism by the Russian government. Repeated statements were made accusing Mechel of using tax avoidance schemes and other improprieties. Ultimately the allegations regarding tax avoidance were not confirmed by the tax authorities, but the antimonopoly investigation resulted in imposition of a fine and issuance of a FAS directive regarding our business practices. See Risks Relating to Our Business and Industry Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Selective government action, if directed at us or our controlling shareholder, could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Due to still-developing law and practice related to minority shareholder protection in Russia, the ability of holders of our shares and ADSs to bring, or recover in, an action against us may be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See Item 10. Additional Information Description of Capital Stock Rights attaching to common shares. Disclosure and reporting requirements have also been enacted in Russia. Concepts similar to the fiduciary duties of directors and officers to their companies and shareholders are also expected to be further developed in Russian legislation; for example, amendments to the Russian Code of Administrative Offenses imposing administrative liability on members of a company s board of directors or management board for violations committed in the maintenance of shareholder registers and the convening of general shareholders meetings. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, the enforcement of these and other protections has not been effective.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a general shareholders meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a general shareholders meeting, they are in a position to approve amendments to a company s charter, reorganizations, significant sales of assets and other major transactions, which could be prejudicial to the interests of minority shareholders. See Risks Relating to Our Business and Industry The concentration of our shares with our controlling shareholder will limit your ability to influence corporate matters and transactions with the controlling shareholder may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their

investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an effective parent. The entity whose decisions are capable of being so determined is deemed an effective subsidiary. Under the Joint-Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such entities; and
- the effective parent gives obligatory directions to the effective subsidiary based on the above-mentioned decision-making capability.

In addition, an effective parent is secondarily liable for an effective subsidiary s debts if an effective subsidiary becomes insolvent or bankrupt due to the fault of an effective parent resulting from its action or inaction. This is the case no matter how the effective parent s ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. Other shareholders of the effective subsidiary may claim compensation for the effective subsidiary s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

Shareholder rights provisions under Russian law could result in significant additional obligations on us.

Russian law provides that shareholders that vote against or do not participate in voting on certain matters have the right to request that the company redeem their shares at value determined in accordance with Russian law. The decisions of a general shareholders meeting that trigger this right include:

- decisions with respect to a reorganization;
- the approval by shareholders of a major transaction, which, in general terms, is a transaction involving property worth more than 50% of the gross book value of the company s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated, except for transactions undertaken in the ordinary course of business;
- the amendment of the company s charter or approval of a new version of the company s charter that limits shareholder rights; and
- a decision to apply for delisting of the company s shares or securities convertible into shares.

Our and our Russian subsidiaries obligation to purchase shares in these circumstances, which is limited to 10% of our or the subsidiary s net assets, respectively, calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our business, financial condition, results of operations and prospects due to the need to expend cash on such obligatory share purchases.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares and ADSs.

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and

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registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depositary, under the terms of the deposit agreements governing record keeping and custody of our ADSs, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See Item 10. Additional Information Description of Capital Stock Registration and transfer of shares.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

Generally, Russian companies are subject to numerous taxes. These taxes include, among others:

- a profit tax;
- a value-added tax (**VAT**);
- a mineral extraction tax; and
- property and land taxes.

Laws related to these taxes have been in force for a short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation, as amended (the **Russian Tax Code**), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as the corporate profit tax, VAT and property tax with new chapters of the Russian Tax Code.

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Contradictory interpretations of tax regulations exist within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and documentation such as customs declarations, are subject to review and investigation by relevant authorities, which may impose severe fines, penalties and interest charges. Generally, in a tax audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to re-audit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. As a result of the fact that none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has obstructed or hindered a tax audit and ultimately seek back taxes and penalties beyond the three year term. In some instances, new tax regulations have been given retroactive effect.

Since May 2009, in connection with the proposal expressed by the Russian President in his Budget Message regarding the budget policy for 2010-2012, an overhaul of the anti-avoidance mechanism of double tax treaties has begun. In November 2014, Russian legislation was significantly revised in order to prevent unlawful use of low-tax jurisdictions for tax evasion in the Russian Federation. The amendments in the legislation set out the rules for the taxation of income of a foreign organization that is deemed to be a controlled foreign company. A foreign organization is recognized as a controlled foreign company if it is not a tax resident of the Russian Federation and the participation interest of the controlling legal entities or individuals in the organization is more than 10% (during the transition period, namely until January 1, 2016, more than 50%). The transition period also provides for a gradual reduction in the size of non-taxable profit, in particular, to 50 million rubles, 30 million rubles and 10 million rubles in 2015, 2016 and 2017 and thereafter, respectively. Starting from 2015, these changes in tax regulations could increase the tax burden on companies which are recognized to be controlled foreign companies. In addition, Russian companies are required to disclose information about controlled foreign companies to the Russian tax authorities. All of these measures are intended to ensure the transparency of economic transactions, including foreign trade transactions. Disclosure of beneficial ownership, beneficial recipients of income and tax residence of legal entities at their actual place of business is, according to the new legislation, a prerequisite for the application of tax preferences, including reduced tax rates under international double tax treaties. Furthermore, in November 2014, Russia ratified the Convention on Mutual Administrative Assistance in Tax Matters which provides for the potential exchange of tax information, including simultaneous tax inspections with Member States of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (OECD), which signed the convention, as well as for assistance in the collection of taxes on their territories.

On November 16, 2011, the Russian President signed the Law on Amendment of Part One and Part Two of the Tax Code of the Russian Federation in Connection with the Formation of a Consolidated Group of Taxpayers. The main provisions of the law came into force on January 1, 2012. The law provides for formation of a consolidated group of taxpayers for the purposes of profit tax calculation and payment on the basis of the combined business performance of the members of such group. However, the law sets forth a number of requirements for the formation of a consolidated group of taxpayers. Starting from 2013, 16 companies of our group have formed a consolidated group of taxpayers, with Mechel being a responsible party. The formation of the consolidated group of taxpayers allowed us to determine the taxable income with profit and loss offset of all the companies included in the consolidated group of taxpayers and to pay profit tax from total aggregate income under the consolidated group of taxpayers, starting from January 1, 2013. In 2014, there have been some changes in the composition of the consolidated group of taxpayers as a result the number of members has increased to 20 companies. Due to changes in Russian tax legislation, starting in 2015 the consolidated tax base does not include any profit received from controlled foreign companies by a member of the consolidated group of taxpayers (such member being the controlling entity of such controlled foreign companies and the responsible party for paying profit tax in respect of the profits of controlled foreign companies irrespective of the profit tax of the consolidated group of taxpayers).

However, regardless of being a member of the consolidated group of taxpayers or not, Mechel and our Russian subsidiaries pay Russian taxes on dividends they receive from other companies in our group. In 2015, the tax rate on dividend income amounts to 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules) if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties) if being distributed to foreign companies which are not controlled foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 13%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or an international tax agreement.

In addition, application of current Russian thin capitalization rules and the developing negative court practice on such disputes, including at the level of the Presidium of the Supreme Arbitrazh Court of the Russian Federation, may affect our ability to pay interest on loans in full. In particular, taking into account the requirements of Russian law and negative court practice on thin capitalization, it is practicable to withhold as a dividend tax a part of the interest on borrowings of our subsidiaries which are either received from Mechel or received from independent banks and guaranteed by Mechel. In addition, part of interest on these borrowings may not be treated as expenses for tax purposes under certain conditions provided by thin capitalization rules.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also Risks Relating to the Russian Federation Legal risks and uncertainties Selective government action could have a material adverse effect on the investment climate in Russia and on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

The lack of established practice with respect to Russian new transfer pricing rules exposes our business to the risk of significant additional liabilities.

Russian transfer pricing rules, effective since 1999, gave Russian tax authorities the right to control prices for transactions between related parties and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations, if the transaction price deviated by more than 20% from the market price.

In July 2011, Russian transfer pricing legislation was substantially amended. The new rules entered into force on January 1, 2012. The new rules require taxpayers to notify the tax authorities on controlled transactions that are performed from January 1, 2012. Controlled transactions mean any transactions between related parties both domestic and cross-border as well as certain transactions between unrelated parties. The tax legislation eliminated the existed 20% safe harbor for price deviations. The rules also introduce specific documentation requirements for proving market prices. The new rules have not been applied in practice yet, therefore we cannot predict now what effect the new transfer pricing rules will have on our business. If the tax authorities impose significant additional tax assessments as a result of changes in transfer pricing regulation and we are unable to successfully challenge them in court or make symmetrical adjustments provided by the new rules, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

On April 29, 2008, the Federal Law On the Procedure for Foreign Investment in Companies with Strategic Impact on the National Defense and Security of the Russian Federation was adopted. See Item 4. Information on the Company Regulatory Matters The Strategic Industries Law.

As our subsidiary Southern Urals Nickel Plant holds the subsoil license on land plots with nickel and cobalt ore deposits which are included in the official list of subsoil plots of federal importance published on March 5, 2009 in the Russian official newspaper *Rossiyskaya Gazeta* as amended (the **Strategic Subsoil List**), it qualifies as a Strategic Company and is subject to special regulation. Our subsidiary Urals Stampings Plant is included in the register of natural monopolies, and therefore is also a Strategic Company. Furthermore, entities producing and distributing industrial explosives are deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol, Vzryvprom and Korshunov Mining Plant also qualify as Strategic Companies, as they hold licenses to carry out activities related to the handling of industrial explosives.

Therefore, any transfer, directly or indirectly, to a foreign investor or its group of entities (except for the transfer to a foreign investor controlled by the Russian Federation, the constituent entity of the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have dual nationality) of a stake or certain rights in or fixed assets (equal to 25% or more of the balance sheet value of the relevant entity) of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and Urals

Stampings Plant, which, according to the Strategic Industries Law, is deemed to transfer control, as described in Item 4. Information on the Company Regulatory Matters The Strategic Industries Law, will be subject to prior approval from the state authorities. Likewise, a sale to a foreign investor or its group of entities of a stake in Mechel which provides control (as defined in the Strategic Industries Law) over Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and Urals Stampings Plant, will also be subject to prior approval in accordance with the Strategic Industries Law.

In addition, in case a foreign investor or its group of entities which is a holder of securities of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and Urals Stampings Plant, becomes a holder of voting shares in amount which is considered to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to the allocation of voting shares as a result of certain corporate procedures provided by Russian law (e.g., as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares, or holders of preferred shares becoming entitled to vote at a general shareholders meeting in cases provided under Russian law), such shareholders will have to apply for approval within three months after they acquired such control.

In this connection, there is a risk that the requirement to receive prior or subsequent approvals and the risk of not being granted such approvals might affect our ability to attract foreign investments, create joint ventures with foreign partners with respect to our companies that qualify as Strategic Companies or effect restructuring of our group which might, in turn, materially adversely affect our business, financial condition, results of operations and prospects.

Item 4. *Information on the Company*

Overview

We are a vertically integrated group with revenues of $6.4 billion in 2014, $8.5 billion in 2013 and $10.8 billion in 2012, with operations organized into three industrial segments: mining, steel and power, each of which has a management company that performs the functions of respective executive management bodies of the companies within the segment, as described below.

Our group includes a number of logistical and marketing companies that help us to deliver and market our products. We have freight seaports in Russia on the Sea of Japan (Port Posiet) and on the Sea of Azov (Port Temryuk) and a freight river port on the Kama River, a tributary of the Volga River in central Russia (Port Kambarka). We have a fleet of freight railcars, locomotives and long-haul trucks, and operate a rail line to our Elga coal deposit in the Sakha Republic.

We have a network of overseas subsidiaries, branches, warehouses, service centers and agents to market our products internationally, and we have a Russian domestic steel retail and service subsidiary with regional offices in 38 cities throughout Russia.

Following the disposal of Tikhvin Ferroalloy Plant and Voskhod Mining Plant, as well as the suspension of operations at Southern Urals Nickel Plant, in 2014, we made the decision to change the structure of our reportable segments as described in note 25 to our consolidated financial statements.

Mechel OAO is an open joint-stock company incorporated under the laws of the Russian Federation. From the date of our incorporation on March 19, 2003 until July 19, 2005, our corporate name was Mechel Steel Group OAO. We conduct our business through a number of subsidiaries. We are registered with the Federal Tax Service of the Russian Federation under main state registration number (OGRN) 1037703012896. Our principal executive offices are located at Krasnoarmeyskaya Street, 1, Moscow 125993, Russian Federation. Our telephone number is +7 495 221 8888. Our Internet addresses are *www.mechel.com* and *www.mechel.ru*. Information posted on our website is not a part of this document. We have appointed C T Corporation System, located at 111 Eighth

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Avenue, New York, New York 10011, as our authorized agent upon which process may be served for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreements.

Mining Segment

Our mining segment produces metallurgical coal (coking coal, PCI and anthracite), steam coal, iron ore concentrate, coke and limestone.

The segment primarily consists of our coal, iron ore and coke production facilities in Russia. It also includes limestone operations and certain transportation and logistics facilities and engineering operations.

Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky basin, near Mezhdurechensk in Western Siberia. These mines include four open pit mines and three underground mines. Another of our subsidiaries, Yakutugol, operates coal mines located in the Sakha Republic in Eastern Siberia, consisting of two open pit mines and one underground mine. Yakutugol also holds subsoil licenses for three iron ore deposits, located in close proximity to its coal mining operations. In August 2013, we established Elgaugol which holds the subsoil license for the Elga coal deposit, located in the Sakha Republic in Eastern Siberia. Our mining segment also provides coal washing services to our coal mining subsidiaries.

Korshunov Mining Plant operates two open pit iron ore mines and a washing plant located near Zheleznogorsk-Ilimsky, a town in the Irkutsk region in Eastern Siberia.

The mining segment also produces significant amounts of coke, both for use by our subsidiaries in the steel segment and for sales to third parties. We have the flexibility to supply our own steel mills with our mining products or to sell such mining products to third parties, depending on price differentials between local suppliers and foreign and domestic customers.

In April 2008, we established Mechel Mining, a wholly-owned subsidiary, in which we consolidated coal, iron ore and coke assets of our mining segment (Southern Kuzbass Coal Company, Korshunov Mining Plant, Yakutugol, Moscow Coke and Gas Plant and Mechel Coke and certain other companies).

Mechel Mining Management, a wholly-owned subsidiary of Mechel Mining, acts as the sole executive body of our subsidiaries in the mining segment.

Steel Segment

Our steel segment produces and sells semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat steel products and high value-added metal products, including wire products, stampings and forgings.

Our steel production facilities in Russia include one integrated steel mill, one steel-making mill, a wire products plant and forgings and stampings mill in the southern Ural Mountains and a wire products plant in northwestern Russia near the border with Finland. We also have a wire products plant in Lithuania and a steel mill in Ukraine.

In 2014, to further optimize the structure of our group, we transferred our ferrosilicon producing subsidiary Bratsk Ferroalloy Plant to the steel segment.

Mechel-Steel Management, a wholly-owned subsidiary of Mechel, acts as the sole executive body of our main subsidiaries in the steel segment.

Our steel segment also includes our distribution network in Russia and abroad, which consists of Mechel Service Global and its subsidiaries in Russia, the CIS and Europe.

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Power Segment

The power segment was formed in April 2007, when we acquired a controlling interest in Southern Kuzbass Power Plant located in Kaltan in the Kemerovo region, and it sells electricity and capacity to the wholesale market, as well as supplies electricity within our group. In June 2007, we acquired a controlling interest in Kuzbass Power Sales Company, the largest power distribution company in the Kemerovo region. Our power segment enables us to market high value-added products made from our steam coal, such as electricity and heat energy, and to increase the electric power self-sufficiency of our mining and steel segments. Mechel Energo acts as the sole executive body of Southern Kuzbass Power Plant in our power segment.

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Competitive Strengths

Our main competitive strengths are the following:

Leading mining and metals group by production volume with strong positions in key businesses

We are a leading coking coal producer and exporter by volume in Russia.

In 2014, we were the second largest coking coal producer in Russia, with an 18.3% share of Russia s total coking coal production by volume, according to the Central Dispatching Department of Fuel and Energy Complex (**Central Dispatching Department**), a Russian information agency reporting on the fuel and energy industry. In 2014, our export sales of coking coal concentrate were the largest by volume among Russian companies, according to RasMin OOO (**RasMin**), a private information and research company focusing on the coal mining industry.

We have a large coal reserve base and a broad-range offering of high-quality coal for blast furnace steel producers.

Our total coal reserves amounted to 3,074.5 million tonnes as of December 31, 2014, as accounted pursuant to SEC Industry Guide 7.

Our coal reserves allow us to supply steel producers and coke makers globally with a full range of coal grades to make quality metallurgical coke or to use in PCI-assisted and sintering-assisted steel manufacturing. In particular, Southern Kuzbass Coal Company produces semi-hard and semi-soft coking coal, as well as PCI and anthracite. Most of the coking coal grades of Southern Kuzbass Coal Company are sold in Russia, while PCI and anthracite are exported. Yakutugol produces low-volatile hard coking coal used by customers both in the Asia-Pacific region and in Russia and Ukraine. Elgaugol produces high-quality hard coking coal of high-volatile content which is supplied for export and to the Russian domestic market. The ability to serve our customers with a broad range of metallurgical coal grades gives us a competitive advantage in entering the new markets and establishing long-term relationships with the customers.

By production volume we are Russia s second largest producer of long steel products and Russia s largest producer of wire products.

According to Metal Expert, a source for global steel and raw materials market news and analytics, in 2014, we were Russia s second largest producer of long steel products (excluding square billets), third largest producer of reinforcement bars (rebar) and largest producer of wire rod (all by production volume). Our long steel products business has particularly benefited from the increased infrastructure and construction activity in Russia over the last 10 years. Our share of Russia s total production volume of rebar in 2014 was approximately 17.6%, according to Metal Expert. According to Metal Expert and Chermet, a Russian ferrous metals industry association (**Chermet**), we are Russia s third largest producer of special steel by production volume, accounting for 15.8% of Russia s total special steel output in 2014. Our product range in special steel is broader and more comprehensive than other Russian producers, giving us an added advantage in our markets. According to Metal Expert, we are Russia s largest producer of wire products by production volume, accounting for 28.8% of Russia s total wire products output in 2014.

High degree of vertical integration

Our steel segment is able to source most of its raw materials from our group companies, which provides a hedge against supply interruptions and market volatility.

We believe that our internal supplies of coke, iron ore concentrate and ferrosilicon give us advantages over other steel producers, such as higher stability of operations, better quality control of end products, reduced production costs, improved flexibility and planning latitude in the production of our steel and value-added steel products and the ability to respond quickly to market demands and cycles. In 2014, we were fully self-sufficient with respect to coke and ferrosilicon; we were approximately 31% self-sufficient with respect to iron ore concentrate; and we satisfied approximately 26% of our electricity needs internally. We believe that the level of our self-sufficiency in raw materials gives our steel business a competitive advantage.

We view our ability to source most of our inputs internally not only as a hedge against potential supply interruptions, but as a hedge against market volatility. From an operational perspective, since our mining and power assets produce the same type of inputs that our manufacturing facilities use, we are less dependent on third party vendors and less susceptible to supply bottlenecks. From a financial perspective, this also means that if the market prices of our steel segment s inputs rise, putting pressure on steel segment margins, the margins of our mining and power segments will tend to increase. Similarly, while decreases in commodity prices tend to reduce revenues in our mining segment, they also create an opportunity for increased margins in our steel business.

Furthermore, we work on improving the quality of our steel products and reducing the costs for raw materials. Depending on prevailing market conditions, we evaluate the efficiency of use of our own raw materials and the raw materials purchased from third parties to be able to generate additional income.

The ability to internally source our materials also gives us better market insight when we negotiate with our outside suppliers, and improves our ability to manage our raw materials costs.

Our logistics capability allows us to better manage infrastructure bottlenecks, to market our products to a broader range of customers and to reduce our reliance on trade intermediaries.

We are committed to maximum efficiency in delivering goods to consumers and have been actively developing our own logistics network. Using our own transportation capacity enables us to save costs as we are less exposed to market fluctuations in transportation prices and are able to establish flexible delivery schedules that are convenient for our customers. Our logistics capacities are currently comprised of two seaports (Port Posiet and Port Temryuk) and a river port (Port Kambarka), as well as freight forwarding companies (Mecheltrans, Mecheltrans Vostok and Mecheltrans Auto) which manage rail and motor transportation of our products and carry out the overall coordination of our sea, rail and motor transportation logistics. These companies not only transport our products but also provide transportation services to third parties.

We own two seaports and a river port and we have our own rail rolling stock. Port Posiet in the Russian Far East, on the Sea of Japan, gives us easy access to the Asia-Pacific seaborne market and provides a delivery terminal for the coal mined by our subsidiaries Yakutugol and Elgaugol in Yakutia. We are in the process of the first stage of the Port Posiet s modernization, which upon completion in 2015 will enable us to expand the cargo-handling capacity of the port up to 7.0 million tonnes per annum. Port Temryuk on the Sea of Azov, an inlet of the Black Sea basin, is primarily used for coal and metal transshipment and provides us access to the emerging market economies of the Black Sea basin and beyond. Port Kambarka on the Kama River in the Republic of Udmurtia (a Russian administrative region also known as Udmurtia) is connected to the Volga River basin and the Caspian Sea, as well as by canal to the Don River and the Baltic Sea. As of December 31, 2014, our subsidiaries Mecheltrans and Mecheltrans Auto owned and leased 11,995 freight transportation units, including 11,948 railcars and 47 long-haul trucks that we use to ship our products.

In June 2008, pursuant to the terms of our subsoil license for the Elga coal deposit we began construction of a private rail line, which we own and control subject to applicable regulation. In December 2011, we finished laying track for the rail line in accordance with the terms of the license. The 321 kilometer-long rail line is now in operation and we are able to use it for transportation of coal currently produced at the Elga deposit. The rail line connects the Elga coal deposit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network, in general, and Pacific Ocean ports, in particular. We will further develop the rail line to increase its capacity in line with our subsoil license requirements and coal production plans. We anticipate that the Elga rail line will not only provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the transport route for coal, iron ore and other raw materials mined in the adjacent deposits.

One of the lowest-cost metallurgical coal producers

According to AME Group Pty Limited (**AME**), our Russian metallurgical coal operations are in the first and second quartiles of the global cash cost curve (FOB basis). In 2014, approximately 88% of our coking coal production was mined from open pit mines, which we believe is one of the highest rates among our Russian competitors. Open pit coal mining is generally considered safer, cheaper and faster than the underground method of mining. Most of our mines and processing facilities have long and established operating histories. We view strict cost management and increases in productivity as fundamental aspects of our day-to-day operations, and continually reassess and improve the efficiency of our mining operations.

Strategically positioned to supply key growth markets

Our mining and logistical assets are well-positioned to expand sales to the Asia-Pacific seaborne market.

Eastern Siberian coal mines of Yakutugol and Elga coal deposit, which are part of our mining segment, are strategically located and will enable us to expand exports of our products to key Asian markets. Yakutugol and Elgaugol are located within the shortest distance among Russian coking coal producers to Port Posiet and Port Vanino in the Russian Far East. We view the proximity of these mining and logistical assets to the Asian economies as a key competitive advantage which allows us to diversify our sales, provides us with additional growth opportunities and acts as a hedge in the event of a decrease in demand from customers in Russia. Moreover, due to our integration, experience and location in Russia, which has some of the largest deposits of coal and iron ore in the world, we are better located than many of our international peers to secure future production growth.

Our steel mills are well-positioned to supply Russian infrastructure projects.

Russia is our core steel market and we have significant domestic market shares in main types of carbon and special steel long products. We believe we have established a strong reputation and brand image for Mechel within Russia, just as we have with our international customers. The location of a number of our core steel segment assets in the southern Urals positions us advantageously, from a geographical and logistical perspective, to serve the areas in the west of the Urals as this region is a large consumer of long steel products in Russia, according to Metal Expert. The construction industry has been a major source of our revenue and we have captured a large portion of the market. According to Metal Expert, our share of Russia s total production volume of construction rebar in 2014 was approximately 17.6%.

Established distribution and sales platform

We have a non-retail sales and distribution network represented by our Swiss subsidiaries Mechel Trading and Mechel Carbon with representative offices in various countries, as well as Mechel Carbon Singapore. This network facilitated sales constituting 24.5% of our total sales in 2014. We also have Mechel Somani Carbon Private Limited, a joint venture engaged in distribution of metallurgical coals in the Indian market.

Starting from 2013, following the refocusing of our strategy in the steel segment on the domestic market and the completion of the gradual withdrawal of production from Europe, we started optimizing the distribution network of Mechel Service Global in order to preserve the link between production and sales. The optimization entailed the closure of some of our European service centers and warehouses, keeping those which offer a direct synergy between our Russian-based manufacturing and our consumers in Europe. The main focus of sales of our products to Europe was shifted towards sales of high value-added products, mainly rolled products and forgings produced by our Urals plants, through Mechel Service Belgium. In conducting sales of commercial-quality steel in Europe we focused on further development of companies in Germany, Austria and the Czech Republic, which provide our customers with a wide range of services for metal processing. The distribution platform in Russia and the CIS also underwent a restructuring, though at a lesser scale, with, in particular, certain remote offices being closed in 2014. These optimization efforts resulted in a significant reduction of sales volumes through the distribution network of Mechel Service Global; at the same time, when taken together with the increase in the share of service activities, such efforts led to improved sales efficiency.

Mechel Service Global sales accounted for 47.9% of our steel segment sales and 27.3% of our total sales in 2014. More than 92.4% of Mechel Service Global sales were sold domestically. Sales to companies within our group accounted for 1.6% of total sales of Mechel Service Global (including intra-group sales) in 2014.

Our direct access to end customers allows us to obtain real-time market intelligence and improve production planning at our steel facilities, which in turn allows us to improve the efficiency of our existing operations through the optimization of our sales structure.

Strong and focused management team

Our current management team has significant experience in all aspects of our businesses. Mr. Zyuzin, one of the founders of our group and our controlling shareholder, is our Chairman. Mr. Zyuzin has led our successful transformation from a small coal trading operation to a large integrated mining and metals group. Mr. Zyuzin has over 28 years of experience in the coal mining industry and holds a Ph.D. in technical sciences in the coal mining field. Our divisional management also has long-tenured experience in the mining and metals industry. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers.

Business Strategy

Our goal is to become one of the largest mining companies with focus on metallurgical coal and a strong integration into steel. The key elements of our strategy include the following:

Optimization of our business structure on the basis of a vertically integrated holding with our mining division forming the backbone of our business model

We intend to maintain the flexibility to source our inputs internally as circumstances require.

Our coking coal and iron ore production form a solid platform for our steel business and provide a significant portion of the raw materials supply for our pig iron production. Steam coal produced in our mining operations can be used to feed our power generating business, which we operate not only as a diversification measure and a way to market another value-added product made from our coal, but also as a way to have more control over our energy efficiency and hedge against increases in electricity prices. However, even as we develop our internal sourcing capability, we intend to adhere to our long-standing approach of purchasing inputs from third party suppliers and selling products, including raw materials, to domestic and international customers in a way that we believe creates the most advantageous profit opportunities for our group.

We plan to expand our logistics capabilities.

We intend to selectively expand our logistics capabilities. We plan to expand our own railcar fleet, balancing transportation security and cost efficiency. Recently, we have expanded the cargo-handling capacity of Port Posiet by constructing a modern transshipment complex at the port. Development of Port Posiet is key for uninterrupted shipments of our coal products in the Asia-Pacific region. In order to reflect growing production of export-oriented coal in our mining segment, we contemplate further growth of port capacity on our main export routes.

We intend to concentrate on realizing the maximum potential from our existing assets, while also considering disposals of non-core assets on a selective basis.

Our strategy has shifted from growing our business through acquisition and expansion opportunities to extracting the maximum value from our existing assets. We now intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability. We may also consider selective disposal of assets which do not fit our main strategy directions in order to minimize opportunity costs and decrease our financial leverage.

Since 2012, we have refocused our strategy to profitable mining and steel assets in Russia. In line with our strategy, in the mining segment, we intend to prioritize the development of the Elga coal deposit, one of the largest global metallurgical coal reserves, and to strive to secure our position as one of the largest metallurgical coal producers globally. In the steel segment, we plan to focus on the Russian rail, infrastructure and construction markets, and to leverage the leadership in special and stainless steels and wire products in Russia by relying on our own distribution network which we believe is one of the largest in Russia. Furthermore, we have evaluated our other assets for potential divestment and decided to dispose of our ferroalloys segment, certain power assets and certain steel assets that are not integrated with our mining segment and that are less efficient through their high cost base and exposure to weaker end markets. In December 2012, we suspended operations at Southern Urals Nickel Plant, which mined nickel ore and produced ferronickel, and, in July 2013, we made a decision to close the plant and to carry out research and development of nickel ore processing under new technology. In February 2013, we disposed of our Romanian steel plants. In July 2013, we disposed of Toplofikatsia Rousse, a power plant in Bulgaria. In December 2013, we disposed of Voskhod Mining Plant in Kazakhstan and Tikhvin Ferroalloy Plant in Russia, which mined chrome ore and produced ferrochrome, respectively. In February 2015, we also disposed of our Bluestone coal operations in the United States.

Develop our substantial reserve base in order to become one of the leaders in key raw materials supplies for the global steel industry

We plan to develop our reserves in order to become one of the top three producers of metallurgical coal globally.

We intend to build on our substantial mining experience and significant resource base by developing our existing coal reserves, particularly in order to sell more high-quality metallurgical coal and coal products to third parties. We currently plan to increase our annual saleable coal production from 21.6 million tonnes in 2014 to 23.7 million tonnes in 2017. We intend to develop coking coal reserves of Elgaugol that we believe will solidify our position as a leading global producer of coking coal for the future. We intend to selectively seek additional mining licenses through acquisitions and participation in auctions in view of our strategic plans and market dynamics. In particular, we believe that obtaining additional mining rights near the Elga coal deposit would allow us to realize more fully the benefits of our private rail line.

We plan to increase metallurgical coal sales to high-growth international markets.

We intend to continue to capitalize on our ability to serve Asian and other international markets by leveraging our growth in production and favorable geographic location of our coal producing and logistics assets. In particular, we view Japan, China, South Korea and India as countries to which our international growth strategy will be applied.

We plan to increase production of iron ore concentrate in the future to complement the sales of metallurgical coal to our customers.

We currently offer iron ore concentrate produced at Korshunov Mining Plant with a standard iron content of 62%. We plan to increase production of iron ore concentrate in the future following the development of the Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit located in Yakutia. These deposits contain high-quality iron ore, which we believe will allow us to increase the iron content of our iron ore concentrate to 65%. An increase in production from these operations will increase our sales of iron ore products to third parties, including exports. Our ability to offer iron ore concentrate together with metallurgical coal products to our customers will further enhance our competitive strength in our key markets.

Strengthening our position as a major player in our core steel products markets

We plan to increase our focus on our steel products offering to the Russian construction and engineering industries.

As one of the leaders in long steel production in Russia, we will continue to maintain our exposure to the construction and engineering sectors and to selectively invest in technology and equipment modernization, optimizing our product catalog and cutting production costs with a view to increase steel margins. Following this strategy, in 2013, we launched the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant, thereby allowing us to widen our offer book of high value-added products such as structural shapes and rails, as well as significantly improve our competitive advantage as a full product range supplier to the construction sector and as an important supplier to the Russian Railways. In 2014, we commenced the certification of rail products produced at the universal rolling mill.

We intend to increase our group s output and improve the quality of high value-added steel products.

Chelyabinsk Metallurgical Plant, Izhstal and Urals Stampings Plant form the core of our group s special and stainless steel platform. For some of these products, we hold a unique market niche, which serves as the basis for further improvement in our market share and growth of our customer base. Beloretsk Metallurgical Plant is our main wire products production facility. Investments made in Beloretsk Metallurgical Plant have helped us to become Russia s largest wire products producer. The modernization of Izhstal has allowed us to improve the quality of our products and expand our product range.

Capitalize on our domestic and European distribution capabilities.

The geographical reach of our production and logistics facilities together with direct supplies from our plants and supplies from the warehouses of Mechel Service Global s distribution network provides us with a strong platform for further development of our sales. Having completed the gradual withdrawal of our steel production from Europe, we have optimized the European part of our distribution network including the closure of certain service centers and warehouses that did not offer immediate synergies with our production facilities. As compared to previous periods, in 2014, there was a significant reduction in sales through our European companies. At the same time, these measures enabled us to improve the efficiency of our existing offices. In the current economic situation, we are capable to quickly respond to changing market conditions and if necessary redirect deliveries of our products not only in Russia but abroad, thereby allowing us to obtain additional profit.

Our History and Development

We trace our beginnings to a small coal trading operation in Mezhdurechensk in the southwestern part of Siberia in the early 1990s. See Item 5. Operating and Financial Review and Prospects History of Incorporation. Since that time, through strategic acquisitions in Russia and abroad, Mechel has developed into one of the world s leading mining and metals companies, comprising producers of coal, iron ore, coke, steel, rolled products, ferrosilicon, heat energy and electricity, with operations and assets in Russia, Lithuania and Ukraine. We intend to retain a controlling voting interest in each of our subsidiary holding companies as we continue to build upon our business model of vertical integration among our assets.

Mining Segment

Our mining segment produces coking coal and other types of metallurgical coal (anthracite and coal for pulverized, or finely crushed, coal injection (PCI)), steam coal, middlings, coking coal and steam coal concentrates, as well as coke and chemical products, iron ore, iron ore concentrate and limestone. Our mining segment also includes certain transportation and logistics facilities and engineering operations. Our coal operations consist of Southern Kuzbass Coal Company, Yakutugol and Elgaugol, which together produced 13.9 million tonnes of raw coking coal, 6.4 million tonnes of raw steam coal and 2.3 million tonnes of raw anthracite in 2014. Our coke operations consist of Moscow Coke and Gas Plant and Mechel Coke, which together produced 3.4 million tonnes of coke in 2014. Our iron ore operations consist of Korshunov Mining Plant which produced 9.2 million tonnes of iron ore and 3.2 million tonnes of iron ore concentrate in 2014. Our limestone operations consist of Pugachevsky Open Pit which produced 1.8 million tonnes of limestone in 2014.

Description of key products

Coking coal and metallurgical coal. Southern Kuzbass Coal Company produces high-quality bituminous coal, which is washed to reduce the ash content. The premier product is a high-quality, low phosphorous, low sulfur semi-soft to semi-hard coking coal used to produce coke for the iron and steel industry. Other products produced by Southern Kuzbass Coal Company include PCI and anthracite. Yakutugol produces hard coking coal of low-volatile content. Elgaugol produces high-quality hard coking coal of high-volatile content.

Steam coal. Southern Kuzbass Coal Company, Yakutugol and Elgaugol produce high-energy steam coal as part of their product mix. Steam coal is primarily used for the generation of electricity in coal-fired power stations.

Coke. Coke is used in the blast furnace as a main source of heat, a reducing agent for iron and a raising agent for charging material in the smelting process. It is a product prepared by pyrolysis (heating in the absence of oxygen) of low-ash, low-phosphorus and low-sulfur coal charging material. We offer customers coke from our Moscow Coke and Gas Plant and Mechel Coke.

Chemical products. Chemical products are hydrocarbon products obtained as a by-product of the production of coke. We produce chemical products in our subsidiaries Moscow Coke and Gas Plant and Mechel Coke. We offer our customers coal tar, naphthalene and other compounds. Worldwide, coal tar is used in diverse applications, including in the production of electrode pitch, pitch coke, coal-tar oils, naphthalene, as well as boiler fuel. Naphthalene, a product of the distillation of coal tar, is used by the chemical industry to produce chemical compounds used in synthetic dyes, solvents, plasticizers and other products.

Iron ore concentrate. From our Korshunov Mining Plant we offer iron ore concentrate with a standard iron content of 62%. Yakutugol holds subsoil licenses for three iron ore deposits located in Yakutia. These deposits contain high-quality iron ore, which will allow to produce iron ore concentrate with 65% iron content.

Limestone. The processed limestone produced by our Pugachevsky Open Pit is segregated into three main size fractions: 0-40 millimeters, 40-70 millimeters and 70-120 millimeters. Further processing of 0-40 millimeters fraction limestone allows to obtain aggregate limestone of 0-5 millimeters, 5-20 millimeters and 20-40 millimeters categories.

Mining process

Coal. At our Russian mines, coal is mined using open pit or underground mining methods. Following a drilling and blasting stage, a combination of shovels and draglines is used for moving coal and waste at our open pit mines. Production at the underground mines is predominantly from longwall mining, a form of underground coal mining where a long wall of coal in a seam is mined in a single slice. After mining, depending upon the amount of impurities in the coal, the coal is processed in a washing plant, where it is crushed and impurities are removed by gravity methods. Coking coal concentrate is then transported to coking plants for conversion to coke for use in pig iron smelting at steel plants. Steam coal is shipped to power utilities which use it in furnaces for steam generation to produce electricity. Among the advantages of our mining business are the high quality of our coking coal and the low level of volatile matter in our steam coal.

Iron ore. At our Korshunov Mining Plant, ore is mined using the open pit mining method. Following a drilling and blasting stage, ore is hauled by dump trucks and rail hopper cars to the washing plant. At the washing plant, the ore is crushed and ground to a fine particle size, then separated into an iron ore concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded to a concentrate that contains about 62% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the washing plant. The concentrate is sent to disk vacuum filters which remove the water from the concentrate to reduce the moisture level, enabling shipment to customers by rail during warmer months; in colder periods the concentrate must be dried further to prevent freezing in railcars. Korshunov Mining Plant operates its own drying facility with a dry concentrate production capacity of up to 16,000 tonnes per day. In 2011-2012, Yakutugol obtained subsoil licenses for the Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit in Yakutia. We plan to develop all new iron ore deposits with the open pit mining method, using excavators and trucks.

Limestone. Limestone is mined using the open pit mining method. Following a drilling and blasting stage, mined rock is quarried with shovels and transported to the crushing and screening plant for segregation by size fraction.

Coal production

Our coal production consists of the following mines in Russia:

Subsidiary (Location)	Surface	Underground
Yakutugol (Sakha Republic, Russia)	Neryungrinsky Open Pit Kangalassky Open Pit	Dzhebariki-Khaya Underground
Elgaugol (Sakha Republic, Russia)	Elga Open Pit	
Southern Kuzbass Coal Company (Kuzbass, Russia)	Sibirginsky Open Pit	V.I. Lenina Underground
		Sibirginskaya Underground
	Tomusinsky Open Pit	Olzherasskaya-Novaya Underground
	Olzherassky Open Pit	
	Krasnogorsky Open Pit	

Our coal mines are primarily located in the Kuznetsky basin, a major Russian coal-producing region, and in the Sakha Republic in Eastern Siberia.

The table below summarizes our ROM coal production by type of coal and location of mines for the periods indicated.

	2014		2013		2012	
	Tonnes	% of Production	Tonnes	% of Production	Tonnes	% of Production
	(In millions of tonnes)[1]					
Coking Coal						
Yakutugol	8.9		9.0		8.8	
Elgaugol	0.7		0.04		0.2	
Southern Kuzbass Coal Company	4.3		6.3		5.7	
Bluestone[2]	0		1.8		3.2	
Total Coking Coal	13.9	61.5%	17.14	62.2%	17.9	64.4%
Steam Coal						
Yakutugol	0.5		0.9		0.9	
Elgaugol	0.5		0.11		0.1	

Southern Kuzbass Coal Company	5.4		6.3		6.5	
Bluestone(2)	0		0.6		0.4	
Total Steam Coal	6.4	28.3%	7.91	28.7%	7.9	28.4%
Anthracite						
Yakutugol						
Elgaugol						
Southern Kuzbass Coal Company	2.3		2.5		2.0	
Bluestone(2)						
Total Anthracite	2.3	10.2%	2.5	9.1%	2.0	7.2%
Total Coal	22.6	100%	27.55	100%	27.8	100%

(1) Volumes are reported on a wet basis.

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(2) In January-February 2014, we temporarily idled our Bluestone mines due to adverse market conditions. In February 2015, we disposed of Bluestone mining business.

The coking coal produced by our Russian mines is predominately low-sulfur (0.3%) bituminous coal. Heating values for coking coal range from 6,861 to 8,488 kcal/kg on a moisture- and ash-free basis. Heating values for steam coal range from 6,627 to 8,286 kcal/kg on a moisture- and ash-free basis.

The table below summarizes our saleable coal production by type of coal and location of mines for the periods indicated.

	2014		2013		2012	
	Tonnes	% of Production	Tonnes	% of Production	Tonnes	% of Production
	(In millions of tonnes)					
Coking Coal						
Yakutugol	5.7	26%	5.7	25%	5.3	25%
Elgaugol	0.2	1%	0.1	0%	0.1	1%
Southern Kuzbass Coal Company	4.0	19%	4.0	18%	4.1	19%
Bluestone[1]	0	0%	1.1	5%	1.5	7%
Total Coking Coal	9.9	46%	10.9	48%	11.0	52%
PCI						
Yakutugol						
Elgaugol						
Southern Kuzbass Coal Company	2.6	12%	2.9	13%	2.6	12%
Bluestone[1]						
Total PCI	2.6	12%	2.9	13%	2.6	12%
Anthracite						
Yakutugol						
Elgaugol						
Southern Kuzbass Coal Company	1.5	7%	1.3	6%	1.1	5%
Bluestone[1]						
Total Anthracite	1.5	7%	1.3	6%	1.1	5%
Steam Coal						
Yakutugol	2.9	14%	3.3	14%	3.5	16%
Elgaugol	0.5	2%	0.2	1%	0.1	1%
Southern Kuzbass Coal Company	4.2	19%	3.5	15%	2.6	12%
Bluestone[1]	0	0%	0.6	3%	0.4	2%
Total Steam Coal	7.6	35%	7.6	33%	6.6	31%
Total Coal	21.6	100%	22.7	100%	21.3	100%

(1) In January-February 2014, we temporarily idled our Bluestone mines due to adverse market conditions. In February 2015, we disposed of Bluestone mining business.

Yakutugol mines

Our Yakutugol coal mines are located in the Sakha Republic. The Sakha Republic is located in Eastern Siberia and covers an area of 3.1 million square kilometers. It has a population of fewer than one million inhabitants. Its capital, Yakutsk, is located on the Lena River in south central Yakutia.

Our Yakutugol mines include two open pit mines and one underground mine: Neryungrinsky Open Pit, Kangalassky Open Pit and Dzhebariki-Khaya Underground. Neryungrinsky Open Pit is located in the

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South-Yakutsky basin which covers an area of 25,000 square kilometers and lies near the southern border of Yakutia. Neryungrinsky Open Pit is located near the town of Neryungri, one of the main industrial centers of Yakutia and its second largest city. Kangalassky Open Pit and Dzhebariki-Khaya Underground are located in the Lensky basin which covers an area of 750,000 square kilometers and lies near Yakutsk.

The table below sets forth certain information regarding the subsoil licenses for our Yakutugol coal mines.

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[(1)]	Year Production Commenced	Surface Land Use Rights
Neryungrinsky Open Pit	12336 (Moshchny seam)	15.3	Open pit	2031	Dec 2024	In production	1979	Ownership
Kangalassky Open Pit	15017 (Kangalassk)	7.7	Open pit	2100	Dec 2027	In production	1962	Ownership
Dzhebariki-Khaya Underground	15061 (Dzhebariki-Khaya)	14.8	Underground	2036	Dec 2023	In production	1972	Ownership

(1) In production refers to sites that are currently producing coal.

The earliest production at our Yakutugol mines was in 1962, although we acquired these mines and license areas in October 2007. Neryungrinsky Open Pit produces low-volatile hard coking coal which is sold primarily in the Asia-Pacific region and steam coal which is sold both domestically and for export. Neryungrinsky Open Pit has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. Kangalassky Open Pit produces steam coal that is sold as fuel for boiler plants in Yakutia. It is accessible through an all-weather road from Kangalassy and through a highway from Yakutsk. Dzhebariki-Khaya Underground produces steam coal, most of which is sold to state housing and municipal services. Dzhebariki-Khaya Underground is accessible only by means of the Aldan River.

The table below summarizes ROM coal production of our Yakutugol mines by mine and type of coal for the periods indicated.

Mine	2014 Tonnes	2014 % of Total Production	2013 Tonnes	2013 % of Total Production	2012 Tonnes	2012 % of Total Production
	(In millions of tonnes)[(1)]					
Coking Coal						
Neryungrinsky Open Pit	8.9		9.0		8.8	
Total Coking Coal	8.9	94.7%	9.0	90.9%	8.8	90.7%
Steam Coal						

Neryungrinsky Open Pit	0.1		0.2		0.4	
Dzhebariki-Khaya Underground	0.3		0.6		0.4	
Kangalassky Open Pit	0.1		0.1		0.1	
Total Steam Coal	0.5	5.3%	0.9	9.1%	0.9	9.3%
Total Coal	9.4	100%	9.9	100%	9.7	100%

(1) Volumes are reported on a wet basis.

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The table below sets forth coal sales volumes of our Yakutugol mines by type of coal and destinations for the periods indicated.

Coal Type	**Region**	**2014**	**2013**	**2012**
		(In thousands of tonnes)		
Coking coal	Asia	5,268.1	5,620.4	4,091.3
	CIS	60.1	58.4	811.4
	Russia	11.6	0.0	0.0
	Middle East[1]	0.0	0.0	0.1
Total		5,339.8	5,678.8	4,902.8
Steam coal	Russia	630.4	771.8	1,087.3
Total		630.4	771.8	1,087.3
Middlings	Russia	1,705.2	2,126.6	2,315.9
	Asia	662.7	308.8	128.8
Total		2,367.9	2,435.4	2,444.7
Total		8,338.1	8,886.0	8,434.8

(1) Includes Turkey only.

Elgaugol mine

Our Elga Open Pit is located in the South-Yakutsky basin of the Toko Coal-Bearing region in the Sakha Republic. This coal region was first discovered and explored in 1952 with the first geological surveys being conducted in 1954 through 1956. The closest inhabited localities are Verkhnezeysk village, located 320 kilometers south of the deposit, and the town of Neryungri, located 415 kilometers to the west. Since 1998, there have been several studies on the Elga coal deposit, including geology and resources, mine planning and feasibility studies. Overburden removal at the Elga deposit commenced in November 2010. Coal mining at Elga Open Pit commenced in August 2011.

Our subsidiary Elgaugol was established on August 14, 2013 under the laws of the Russian Federation with Yakutugol and Mechel Mining as participants for raising project financing from Vnesheconombank. In September 2013, Vnesheconombank s Supervisory Board approved a $2.5 billion project financing for the construction of the first stage of the Elga coal complex and the relevant loan agreements were signed in March 2014.

In August 2013, the board of directors of Yakutugol decided to transfer the subsoil license for the Elga coal deposit to Elgaugol. In January 2014, Elgaugol obtained the respective subsoil license.

The table below sets forth certain information regarding the subsoil license for our Elgaugol mine.

Mine	**License (plot)**	**Status[1]**

		Area (sq. km)	**Mining Method**	**Life of Mine**	**License Expiry Date**		**Year Production Commenced**	**Surface Land Use Rights**
Elga Open Pit	03730 (Elga)	144.1	Open pit	2102	May 2020	In production	2011	Lease

(1) In production refers to sites that are currently producing coal.

Elga Open Pit produces two types of coal: high-quality hard coking coal (high-volatile) and steam coal. It also produces middlings (by-product of the coking coal washing process). Coking coal, steam coal and middlings are sold both domestically and in the Asia-Pacific market with transshipment in ports of the Russian Far East.

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The table below summarizes ROM coal production of our Elgaugol mine by type of coal for the periods indicated.

	2014		2013		2012	
Mine	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**
			(In millions of tonnes)(1)			
Coking Coal						
Elga Open Pit	0.7		0.04		0.2	
Total Coking Coal	0.7	58.3%	0.04	26.7%	0.2	66.7%
Steam Coal						
Elga Open Pit	0.5		0.11		0.1	
Total Steam Coal	0.5	41.7%	0.11	73.3%	0.1	33.3%
Total Coal	1.2	100%	0.15	100%	0.3	100%

(1) Volumes are reported on a wet basis.

The table below sets forth coal sales volumes of our Elgaugol mine by type of coal and destinations for the periods indicated.

Coal Type	**Region**	**2014**	**2013**	**2012**
		(In thousands of tonnes)		
Coking coal	Asia	34.6	0.0	0.0
Total		34.6	0.0	0.0
Steam coal	Asia	319.9	24.2	0.0
	Russia	149.1	95.6	0.0
Total		469.0	119.8	0.0
Middlings	Asia	164.7	19.0	0.0
Total		164.7	19.0	0.0
Total		668.3	138.8	0.0

In 2009, the general scheme of the Elga coal complex development and the plan for initial mine block development were prepared. The plan for initial mine block development was subsequently approved by governmental authorities. In 2011, the project documentation of the first stage of the Elga coal complex construction was prepared and subsequently approved by governmental authorities. In November 2011, we concluded a contract for engineering, procurement and construction of a permanent housing complex for 3,000 miners and workers who will operate the Elga coal complex. Construction works are in progress, and miners live in a temporary settlement with all necessary amenities. In late 2014, we completed the construction of a pilot washing plant with a capacity of up to 2.7 million tonnes per annum and the capability to operate year-round.

In December 2011, we finished laying track for the rail line to the Elga deposit. The 321 kilometer-long rail line is now in operation and we are able to use it for transportation of coal produced at Elga Open Pit. The rail line connects Elga Open Pit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network, in general, and Pacific Ocean ports, in particular. We will further develop the rail line to increase its capacity in line with the production capacity requirements of the Elga subsoil license and our production plans.

Currently, Elga has an electricity substation with diesel power generators with a total installed capacity of 6 megawatts (**MW**). Federal Grid Company, the state-owned operator of the unified electricity grid, is

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installing high-voltage transmission lines to deliver electricity from the Zeysky hydro power plant located 270 kilometers from the site, and we are constructing electricity-receiving infrastructure capable of receiving 134 MW. We expect to start receiving electricity from this power plant in the second quarter of 2016.

According to the conditions of the subsoil license for the Elga coal deposit, we are required to meet certain construction deadlines and operational milestones. In view of our commitments, we applied to the Federal Agency for Subsoil Use (**Rosnedra**) for and obtained amendments to certain terms of the subsoil license in order to stay in compliance with the terms of the license. The license terms were last amended in June 2013, and we are required to meet the following construction deadlines and operational milestones: (1) complete construction of the first stage of the Elga coal complex with an annual capacity of 9.0 million tonnes by August 1, 2017; (2) commission a coal washing plant with an annual capacity of 9.0 million tonnes by December 31, 2017; (3) reach annual coal production capacity of 9.0 million tonnes by August 1, 2018; and (4) reach annual coal production capacity of 18.0 million tonnes by December 31, 2021. We also have significant contractual commitments for the construction of the rail line. See note 26 to the consolidated financial statements.

If the current conditions of the subsoil license for the Elga coal deposit are not met, our license may be suspended or terminated or we may be required to extend the license under less favorable conditions. We believe that given our substantial progress in developing the project, Vnesheconombank s project financing and our own considerable investments, along with the importance of the project to the region, we will be able to obtain further extensions of the construction deadlines should they be necessary, although we cannot guarantee that such extensions will be granted.

Southern Kuzbass mines

The Kuznetsky basin, or Kuzbass, is located in the southeastern part of Western Siberia and is one of the largest coal mining areas in the world, covering an area of around 70,000 square kilometers. Coal-bearing seams extend over an area of 26,700 square kilometers and reach a depth of 1,800 meters. Coal was discovered in 1721, and systematic mining started in 1851. During the Soviet era, Kuzbass was the second largest regional coal producer. According to the Central Dispatching Department, Kuzbass (Kemerovo region) now accounts for more than 58% of Russia s total coal production.

All of our Southern Kuzbass mines are located in southeast Kuzbass around the town of Mezhdurechensk in the Kemerovo region, with the exception of the Yerunakovskaya mine area, which is located about 100 kilometers northwest of Mezhdurechensk.

The earliest production at our Southern Kuzbass mines was in 1953, although we acquired these mines and license areas starting in the 1990s. The Southern Kuzbass mines include four open pit mines, three underground mines and one underground mine under development: Sibirginsky Open Pit, Tomusinsky Open Pit, Olzherassky Open Pit, Krasnogorsky Open Pit, V.I. Lenina Underground, Sibirginskaya Underground, Olzherasskaya-Novaya Underground and Yerunakovskaya-1 Underground (project).

Our Southern Kuzbass mines and the related washing plants produce semi-soft and semi-hard coking coal, anthracite, PCI and steam coal. Our Kuzbass operations are connected by rail to the Trans-Siberian Mainline and substantially all products are shipped by rail. Products are shipped by rail to Russian and Ukrainian customers, to Baltic ports for European customers, to Port Posiet and Port Vanino for export to Asia and to Port Temryuk for customers in the Black Sea and Mediterranean basins.

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The table below sets forth certain information regarding the subsoil licenses for our coal mines in Kuzbass, all of which are held by our subsidiary Southern Kuzbass Coal Company, unless otherwise noted.

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[1]	Year Production Commenced	Surface Land Use Rights
Krasnogorsky Open Pit	14016 (Tomsk, Sibirginsk)	22.4	Open pit	2043	Jan 2021	In production	1954	Lease
	13367 (Sorokinsk, Tomsk, Sibirginsk)	2.8			Nov 2025	In production	2012	Lease
Olzherassky Open Pit	01374 (Raspadsk, Berezovsk, Sosnovsk)	9.3	Open pit	2044	Dec 2029	In production	1980	Lease
	12939 (Raspadsk)[2]	3.5			Dec 2024	Development	n/a	Lease
	12940 (Berezovsk-2, Berezovsk, Olzherassk)	4.8			Dec 2024	In production	2007	Lease
Tomusinsky Open Pit	13312 (Tomsk)[3]	6.7	Open pit	2022	Dec 2020	In production	1959	Lease
Sibirginsky Open Pit	13639 (Sibirginsk, Kureinsk, Uregolsk)	17.7	Open pit	2047	Dec 2032	In production	1970	Lease
	01557 (New-Uregolsk)	2.4			Apr 2031	In production	2011	Lease
Sibirginskaya Underground	12917 (Sibirginsk, Tomsk)	5.9	Underground	2048	Dec 2024	In production	2002	Lease
	15463 (Sibirginsk-2, Sibirginsk, Kureinsk)	0.9			Dec 2032	In production	2014	Lease
V.I. Lenina Underground	14060 (Olzherassk)	10.0	Underground	2033	Dec 2032	In production	1953	Lease
	01701 (Granichny, Olzherassk)	1.2			Feb 2033	Exploration and development	n/a	
Olzherasskaya-Novaya Underground	14199 (Raspadsk)	1.2	Underground	2079	Dec 2021	In production	2008	Lease
	01471 (Olzherassk-2, Raspadsk)	0.03			Jan 2030	In production	2010	Lease
	13366 (Razvedochny, Raspadsk)	14.6			Nov 2025	In production	2010	Lease
Yerunakovskaya-1 Underground (project)	13237 (Yerunakovsk-1, Yerunakovsk)[4]	8.4	Underground	2033	Jun 2025	Development	n/a	Lease
Yerunakovskaya-3 Underground (prospect)	13238 (Yerunakovsk-3, Yerunakovsk)[4]	7.1	Underground	2115	Jun 2025	Development	n/a	
Yerunakovskaya-2 Underground (prospect)	13271 (Yerunakovsk-2, Yerunakovsk)[4][5]	7.3	Underground	2051	Jul 2025	Development	n/a	
Olzherasskaya-Glubokaya Underground (prospect)	13365 (Olzherassk)	19.2	Underground	2211	Nov 2025	Development	n/a	
Usinskaya Underground (prospect)	14093 (Olzherassk)	3.6	Underground	2071	Dec 2033	Conservation	n/a	

(1) In production refers to sites that are currently producing coal. Development refers to sites where preliminary work is being carried out. Exploration refers to sites where drilling for calculation of mineral reserves is being carried out. Exploration and development refers to sites where preliminary work and drilling for calculation of mineral reserves are being carried out. Conservation refers to sites where no mining activity is conducted, but measures for mine conservation are being taken.

(2) We failed to commence commercial production in 2009 as required by the subsoil license due to unfavorable mine economics. We expect to commence production at the Raspadsk license area in the third quarter of 2016 provided coal prices recover sufficiently.

(3) License held by Tomusinsky Open Pit, a subsidiary of Southern Kuzbass Coal Company.

(4) We failed to commence commercial production in 2011 as required by the subsoil license due to unfavorable mine economics.

(5) License held by Resurs-Ugol OOO, a subsidiary of Southern Kuzbass Coal Company.

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The table below summarizes ROM coal production of our Southern Kuzbass mines by mine and type of coal for the periods indicated.

	2014		2013		2012	
Mine	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**
			(In millions of tonnes)[1]			
Coking Coal						
Sibirginsky Open Pit	1.2		2.2		2.0	
Tomusinsky Open Pit	0.9		1.4		1.7	
V.I. Lenina Underground	0.7		1.0		0.7	
Sibirginskaya Underground	1.0		1.1		0.7	
Olzherassky Open Pit	0.5		0.6		0.6	
Total Coking Coal	4.3	35.8%	6.3	41.7%	5.7	40.1%
Steam Coal						
Krasnogorsky Open Pit	2.8		3.1		3.7	
Sibirginsky Open Pit	0.8		1.5		1.4	
Olzherassky Open Pit	0.1		0.1		0.6	
Olzherasskaya-Novaya Underground	0.8		1.0		0.4	
Tomusinsky Open Pit	0.9		0.6		0.4	
Total Steam Coal	5.4	45.0%	6.3	41.7%	6.5	45.8%
Anthracite						
Krasnogorsky Open Pit	2.3		2.5		2.0	
Sibirginsky Open Pit						
Olzherassky Open Pit						
Olzherasskaya-Novaya Underground						
Tomusinsky Open Pit						
Total Anthracite	2.3	19.2%	2.5	16.6%	2.0	14.1%
Total Coal	12.0	100%	15.1	100%	14.2	100%

(1) Volumes are reported on a wet basis.

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The table below sets forth Southern Kuzbass mines coal sales volumes by type of coal and destinations for the periods indicated.

Coal Type	Region	2014	2013	2012
		(In thousands of tonnes)		
Coking coal	Russia	1,407.2	1,551.8	1,567.2
	Asia	955.7	212.6	533.7
	CIS	40.1	56.6	429.2
	Europe	0.0	0.0	20.5
Total		2,403.0	1,821.0	2,550.6
Anthracite	Europe	1,200.5	1,096.0	1,186.4
	Asia	336.5	584.8	343.3
	CIS	183.3	173.6	131.2
	Other	76.2	98.7	49.9
	Russia	36.3	41.4	183.0
	Middle East(1)	24.5	33.0	42.3
Total		1,857.3	2,027.5	1,936.1
PCI	Asia	1,870.8	1,388.4	1,014.0
	Europe	837.8	1,036.9	540.5
	Middle East(1)	338.5	557.1	655.6
	CIS	4.1	10.3	0.0
	Other	0.0	315.5	213.2
Total		3,051.2	3,308.2	2,423.3
Steam coal	CIS	392.8	0.0	27.4
	Middle East(1)	152.2	108.3	206.0
	Russia	38.6	49.4	68.0
	Asia	26.2	0.0	10.5
	Europe	13.9	58.8	54.9
	Other	0.0	0.0	7.8
Total		623.7	216.5	374.6
Middlings	Asia	94.0	0.0	0.0
	Europe	0.0	0.0	21.5
	Russia	0.0	0.0	19.2
Total		94.0	0.0	40.7
Total		8,029.2	7,373.2	7,325.3

(1) Includes Turkey only.

Coal washing plants

We operate six coal washing plants and one processing unit in Russia: four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass, one coal washing plant located near Neryungrinsky Open Pit and one coal washing plant at Elga Open Pit.

Our four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass have an aggregate annual capacity of approximately 17.0 million tonnes of ROM coal. These are Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. These washing plants have aggregate storage capacity for saleable products of 131,000 tonnes, of which 45% is covered storage.

Neryungrinskaya Washing Plant located near Neryungrinsky Open Pit has an annual capacity of 9.0 million tonnes. The plant produces coking coal concentrate and middlings.

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In October 2012, we launched a pilot seasonal washing plant for Elga Open Pit, which operated in the warmer months of April to October only, with a seasonal capacity of 2.0 million tonnes per annum. In late 2014, we completed the transfer of the pilot seasonal washing plant to year-round operation with a capacity of up to 2.7 million tonnes per annum.

All of the coal feedstock enriched by our washing plants in 2014 (25.0 million tonnes) was supplied by our own mining operations.

Investments in coal companies

We own approximately 11.11% of Mezhdurechye OAO, a Russian coal producer whose production volume accounted for 5.4% of Russian coking coal output and 1.8% of Russian total coal output in 2014, according to the Central Dispatching Department.

Coke and chemical products production

The following table lists the various types and grades of coke and chemical products we produce and sell. We also produce and sell coke gas.

Plant	**Products**
Moscow Coke and Gas Plant	Coke +40 mm, Coke 25-40 mm, Coke nut 10-25 mm, Coke breeze 0-10 mm, Coal benzene, Coal tar, Coke gas
Mechel Coke	Coke +40 mm, Coke +25 mm, Coke 25-40 mm, Coke nut 10-25 mm, Coke breeze 0-10 mm, Coal benzene, Coal tar, Ammonium sulfate, Coke gas

We have two coke plants, one of which is located in the city of Chelyabinsk and the other in the Moscow region. Coke is prepared by pyrolysis (heating in the absence of oxygen) of low-ash, low-phosphorus and low-sulfur coal. Coke is used in the blast furnace as a main source of heat, a reducing agent for iron and a raising agent for charging material in the smelting process.

In addition, we produce coke nut, which is smaller in size than metallurgical coke and is principally used as a reducing agent in ferroalloys production and for other purposes, and coke breeze, which is even smaller in size and is principally used for sintering iron ore concentrate prior to its use in blast furnaces or as fuel. Coke production and sales volumes figures presented herein include, among others, coke nut and coke breeze. Additional chemical products, such as coal benzene, coal tar and ammonium sulfate, are obtained as by-products in the coke production process.

The table below summarizes our production of coke, chemical products and coke gas for the periods indicated.

	2014	**2013**	**2012**
	(Coke and chemical products in thousands of tonnes) (Coke gas in millions of cubic meters)		

Mechel Coke			
Coke (6% moisture)	2,586	2,418	2,692
Chemical products	119	128	143
Coke gas	835	739	852
Moscow Coke and Gas Plant			
Coke (6% moisture)	799	724	921
Chemical products	41	36	44
Coke gas	367	313	384
Total			
Coke (6% moisture)	3,385	3,142	3,613
Chemical products	160	164	187
Coke gas	1,202	1,052	1,236

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The table below summarizes our sales volumes of coke and chemical products for the periods indicated.

	2014	2013	2012
	(In thousands of tonnes)		
Coke	1,262	1,025	1,387
Chemical products	173	171	193

The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Moscow Coke and Gas Plant s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes)		
Coke (6% moisture)	1,027	77.8%	

The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Mechel Coke s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes)		
Coke (6% moisture)	3,045	84.9%	

Our own production facilities purchase a substantial majority of our coke production. For the years ended December 31, 2014, 2013 and 2012, purchases of our coke by our own production facilities amounted to 2.0 million tonnes, 2.0 million tonnes and 2.2 million tonnes, respectively, which represented 61%, 66% and 61% of our total coke sales volumes (including intra-group sales) for those periods.

We purchase some coking coal from other producers in order to produce coke. The need to purchase coking coal from third parties for coke production varies from period to period, depending on customer demand for particular products and the availability of suitable coal grades from our own mines.

Iron ore and concentrate production

Our iron ore operations consist of Korshunov Mining Plant which operates Korshunovsky Open Pit, Rudnogorsky Open Pit and Korshunovskaya Washing Plant, and three subsoil licenses held by Yakutugol for the Pionerskoye iron ore deposit, the Sivaglinskoye iron ore deposit and the Sutamskaya iron ore area in Yakutia.

Korshunovskaya Washing Plant is located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of Bratsk in the Irkutsk region. Korshunovsky Open Pit is located near the washing plant and Rudnogorsky Open Pit is located about 85 kilometers to the northwest of the washing plant. We have operated these iron ore mines and the washing plant since 2003 when we acquired Korshunov Mining Plant. Both mines produce a magnetite ore (Fe_3O_4) and the washing plant produces iron ore concentrate with a standard iron content of 62%. Product is shipped by rail to domestic customers as well as for export sales. All of the sites are served by regional public highways and a nearby federal motorway. The area is served by the Baikal-Amur Mainline, which connects the Trans-Siberian Mainline with

China and Yakutia.

The table below sets forth certain information regarding the subsoil licenses for our iron ore mines, all of which are held by our subsidiary Korshunov Mining Plant.

Mine	License (plot)	Area (sq. km)	Mining Method	License Expiry Date	Status[(1)]	Year Production Commenced	Surface Land Use Rights
Korshunovsky Open Pit	14051 (Korshunovsk)	4.2	Open pit	Apr 2019	In production	1965	Lease
Rudnogorsky Open Pit	14052 (Rudnogorsk)	5.1	Open pit	Jan 2028	In production	1984	Ownership

(1) In production refers to sites that are currently producing iron ore.

The table below summarizes our ROM iron ore and iron ore concentrate production for the periods indicated.

	2014		2013		2012	
Mine	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)
			(In millions of tonnes)(1)			
Korshunovsky Open Pit	4.8	23.5%	6.8	24.2%	6.9	24.3%
Rudnogorsky Open Pit	4.4	29.6%	5.8	30.9%	5.7	31.5%
Total ore production	9.2	26.4%	12.6	27.3%	12.6	27.6%
Iron ore concentrate production	3.2	63.2%	4.3	63.2%	4.4	62.2%

(1) Volumes are reported on a wet basis.

In 2011-2012, we obtained subsoil licenses for three iron ore deposits: the Pionerskoye deposit, the Sivaglinskoye deposit and the Sutamskaya area which are held by Yakutugol. The Pionerskoye deposit is located in Yakutia about 127 kilometers from the town of Neryungri. The area is well connected to the regional transportation network with a federal motorway located 5 kilometers to the east of the deposit. The Sivaglinskoye deposit is 120 kilometers away from Neryungri and located close to the Pionerskoye deposit. The Sutamskaya area is located 210 kilometers south-east of Neryungri. These deposits contain high-quality iron ore, which will allow to produce iron ore concentrate with 65% iron content.

The table below sets forth certain information regarding the subsoil licenses for our iron ore deposits, all of which are held by our subsidiary Yakutugol.

Deposit	License (plot)	Area (sq. km)	Mining Method	License Expiry Date	Status(1)	Year Production Commenced	Surface Land Use Rights
Pionerskoye	03034 (Pionersk)	9.95	Open pit	Aug 2031	Exploration	n/a	Lease
Sivaglinskoye	03153 (Sivaglinsk)	2.23	Open pit	Mar 2022	Exploration	n/a	Lease
Sutamskaya area	03158 (Sutamskaya area)	731.32	Open pit	Mar 2037	No activity	n/a	

(1) Exploration refers to sites where drilling for calculation of mineral reserves is being carried out.

Limestone production

The Pugachevsky limestone quarry is an open pit mine located approximately nine kilometers southwest of Beloretsk in the Ural Mountains. The mine has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. The quarry was developed in 1951 to support Beloretsk Metallurgical Plant s steel-making facilities, which are currently closed. Pugachevsky Open Pit, which we acquired in 2002, was owned by our Beloretsk Metallurgical Plant until the second half of 2011. In the second half of 2011, a 100% interest in Pugachevsky Open Pit was transferred to our subsidiary Mechel Materials. The current subsoil license is valid until January 2034.

The quarry produces both high-grade flux limestone for use in steel-making and ferronickel production and aggregate limestone for use in road construction. The flux limestone and aggregate limestone are the same grade of limestone, but they are produced in different fraction sizes, which determine their suitability for a particular use. In 2014, approximately 45.8% of the limestone produced at Pugachevsky Open Pit was used internally as auxiliary, with 44.6% shipped to Chelyabinsk Metallurgical Plant, 1.1% to Izhstal and 0.1% to Urals Stampings Plant; approximately 23.4% was sold to third parties; and approximately 30.8% remained in the warehouse and partly was used for internal needs of the quarry. We are capable of internally sourcing 100% of the limestone requirements of our steel operations.

The table below summarizes our limestone production for the periods indicated.

	2014	2013	2012
	(In thousands of tonnes)		
Pugachevsky Open Pit	1,762	1,884	1,997

Sales of mining segment products

The following table sets forth sales of mining segment products (by volume) and as a percentage of total sales of these products (including intra-group sales) for the periods indicated.

Product	2014	2013	2012	2014	2013	2012
	(In thousands of tonnes)[(1)]			(% of total sales, including intra-group)		
Coking coal concentrate	7,777.4	7,499.8	7,455.1	77.1%	76.4%	68.6%
Steam coal and middlings	4,375.6	3,562.5	4,025.7	74.6%	67.3%	72.9%
Anthracite and PCI	4,996.1	5,456.7	4,700.1	96.6%	97.9%	98.7%
Iron ore concentrate	1,168.7	3,688.0	4,156.9	37.5%	88.5%	76.7%
Coke	1,262.0	1,024.6	1,386.6	39.0%	34.4%	38.9%
Chemical products	173.0	171.4	193.1	99.7%	99.6%	42.1%

(1) Includes resale of mining segment products purchased from third parties.

The following table sets forth revenues by product, as further divided between domestic sales and exports (including as a percentage of total mining segment revenues) for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 25 to the consolidated financial statements.

Product	2014 Amount	2014 % of Revenues	2013 Amount	2013 % of Revenues	2012 Amount	2012 % of Revenues
	(In millions of U.S. dollars, except for percentages)					
Coking coal concentrate	801.4	38.4%	966.5	36.9%	1,239.5	39.4%
Domestic Sales	18.0%		16.9%		16.6%	
Export	82.0%		83.1%		83.4%	
Steam coal	114.9	5.5%	75.3	2.9%	118.7	3.8%
Domestic Sales	38.8%		66.8%		48.2%	
Export	61.2%		33.2%		51.8%	
Anthracite and PCI	582.0	27.9%	696.5	26.6%	711.8	22.7%
Domestic Sales	0.9%		0.9%		3.0%	
Export	99.1%		99.1%		97.0%	
Middlings	130.8	6.3%	128.3	4.9%	119.9	3.8%

Domestic Sales	47.3%		77.7%		86.3%	
Export	52.7%		22.3%		13.7%	
Coke	223.7	10.7%	215.5	8.2%	364.7	11.6%
Domestic Sales	62.8%		82.5%		81.7%	
Export	37.2%		17.5%		18.3%	
Chemical products	64.0	3.1%	67.7	2.6%	75.9	2.4%
Domestic Sales	84.7%		86.9%		74.1%	
Export	15.3%		13.1%		25.9%	
Iron ore concentrate	109.4	5.2%	411.9	15.7%	444.7	14.1%
Domestic Sales	55.1%		39.1%		26.5%	
Export	44.9%		60.9%		73.5%	
Other[1]	60.8	2.9%	57.6	2.2%	68.5	2.2%
Total	2,087.0	100.0%	2,619.3	100.0%	3,143.7	100.0%
Domestic Sales	26.7%		29.2%		29.4%	
Export	73.3%		70.8%		70.6%	

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(1) Includes revenues from transportation, distribution, construction and other miscellaneous services provided to local customers.

Marketing and distribution

In 2014, our Russian domestic sales were conducted directly by our own production facilities and our export sales were conducted by Mechel Carbon, based in Baar, Switzerland, and Mechel Carbon Singapore. We generally do not involve traders in the sales and distribution of our mining products and we have had long-standing relationships with end users of our mining products.

The following table sets forth by percentage of sales the regions in which our mining segment products were sold for the periods indicated.

Region[1]	**2014**	**2013**	**2012**
Asia	49.0%	50.1%	43.2%
Russia	26.7%	29.2%	29.3%
Europe	15.0%	12.9%	11.9%
CIS	5.5%	2.0%	8.8%
Middle East[2]	2.9%	3.7%	5.0%
Other	0.9%	2.1%	1.8%
Total	100.0%	100.0%	100.0%

(1) The regional breakdown of sales is based on the geographic location of our customers, and not on the location of the end users of our products, as our customers are often distributors that resell and, in some cases, further export our products.

(2) Includes Turkey and the United Arab Emirates.

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 29.2% of our total mining segment sales in 2014.

Customer	**% of Total Mining Segment Sales**	**Product**	**% of Total Products Sales**
ArcelorMittal	7.9%	PCI and Anthracite	25.0%
		Coke	8.6%
Baosteel Group Corporation	6.8%	Coking coal concentrate	16.0%
		PCI and Anthracite	1.8%
		Steam coal	1.5%
		Middlings	1.1%
EVRAZ plc	6.6%	Coking coal concentrate	10.2%

		Iron ore concentrate	50.3%
		Coke	0.2%
		Coking products	1.2%
POSCO	4.3%	Coking coal concentrate	8.5%
		PCI and Anthracite	3.7%
Shunshun Development (Hongkong) Co. Ltd.	3.6%	Coking coal concentrate	9.4%

Domestic sales

We ship our coking coal concentrate from our coal washing facilities, located near our coal mines, by railway directly to our customers, including steel producers. In 2014, our largest domestic customer for our coking coal concentrate was EVRAZ, accounting for 10.0% of our total coking coal concentrate sales and 3.8% of our total mining segment sales.

We sell coking coal concentrate domestically on the basis of annual framework contracts with monthly or quarterly adjustments to price and quantity.

We ship our steam coal from our warehouses by railway directly to our customers, which are predominantly electric power stations. Our supply contracts for steam coal are generally concluded with customers on a long-term basis with quantities and prices either fixed for the whole term or adjusted monthly. Some of our steam coal is consumed within our group; for example, sales of steam coal and middlings from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were $29.8 million in 2014. In total, 940.7 thousand tonnes of steam coal was sold within our group in 2014, including coal purchased from third parties. SUE HCS Sakha Republic (Yakutia) is our largest domestic customer of steam coal, accounting for 18.4% of our total steam coal sales and 1.0% of our total mining segment sales in 2014.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, EVRAZ, accounted for 50.3% of our total iron ore concentrate sales and 2.6% of our total mining segment sales in 2014. We set our prices on a monthly basis which is in line with the current practice in the Russian market of iron ore feed.

The majority of coke is sold domestically to our subsidiaries Chelyabinsk Metallurgical Plant and Bratsk Ferroalloy Plant, which accounted for 60.8% of our total coke sales (including intra-group sales) by volume in 2014, including coke purchased from third parties. Major third party customers include pig iron, steel and ferroalloy producers located in the Central Region and in the Urals of Russia. Sales in Russia are conducted pursuant to framework agreements with monthly adjustments of quantities and prices.

Our subsidiary Mecheltrans is a railway freight forwarding company, which owns its own rail rolling stock, consisting of 790 open cars and 57 pellet cars, and leases 3,710 open cars under operating leases and 7,391 open cars under finance leases. In 2014, Mecheltrans transported domestically approximately 29.5 million tonnes of our cargo, approximately 71.6% of which was comprised of coal and iron ore concentrate. Our subsidiary Mecheltrans Auto is a motor freight forwarding company, which owns 45 long-haul trucks and leases two long-haul trucks under finance lease. In 2014, Mecheltrans Auto transported domestically approximately 740.0 thousand tonnes of our cargo.

Export sales

We export coking coal concentrate, PCI and anthracite, iron ore concentrate, coke and steam coal.

In 2014, the largest foreign customer of our mining segment was ArcelorMittal, accounting for 7.9% of our total mining segment sales. ArcelorMittal purchases consisted of PCI, anthracite and coke.

We were Russia s largest exporter of coking coal concentrate in 2014, according to RasMin. Our exports of coking coal concentrate are primarily to China, Japan and South Korea. In 2014, Baosteel Group Corporation, Shunshun Development (Hongkong) Co. Ltd., POSCO, JFE Steel Corporation and CNBM International Corporation were our largest foreign customers of coking coal concentrate, accounting for 46.3% of our total coking coal concentrate sales and 17.8% of our total mining segment sales. Shipments are made by rail to seaports and further by sea, except for shipments to Ukraine and northeast China that are made only by rail.

Our exports of PCI and anthracite are primarily to Europe, China, Japan and Turkey, which together accounted for 85.6% of our total PCI and anthracite sales and 23.9% of our total mining segment sales in 2014. In 2014, our largest foreign customers of PCI and anthracite were ArcelorMittal, Tata Steel, Eregli Iron & Steel Works, King Fortune (HK) International Trading Limited and JFE Steel Corporation.

Our exports of steam coal are primarily to Ukraine, China and Turkey, which together accounted for 60.4% of our total steam coal sales and 3.3% of our total mining segment sales in 2014. In 2014, our largest foreign customers of steam coal were DTEK TRADING S.A., Dalian Hengfeng Petrochemical Co. Ltd., Rizhao Shenghe Trading Co., Talvex Commodities AG and Jidong Development.

PCI, anthracite and steam coal are shipped to customers from our warehouses by railway and further by sea from Russian and Baltic ports.

In 2014, we used annual contracts for export sales of coal. Coal not shipped under annual contracts was sold on the spot market primarily to Chinese customers.

We sold iron ore concentrate to customers in China during 2014, which accounted for 44.9% of our total iron ore concentrate sales and 2.4% of our total mining segment sales in 2014. We ship iron ore concentrate to China by rail.

We export coke, including coke breeze, primarily to Ukraine and Europe, which together accounted for 32.3% of our total coke sales and 3.5% of our total mining segment sales in 2014.

From Port Posiet we ship primarily coking coal concentrate and PCI to Japan, South Korea and China. In 2014, our Port Posiet processed 5.1 million tonnes of coal; its warehousing capacity is limited to 200 thousand tonnes per month for one-time storage of no more than four grades of coal. In order to expand the cargo-handling capacity of the port we constructed a modern transshipment complex and put into operation a mechanized coal loosening complex. Upon completion of the first stage of the Port Posiet s modernization in 2015, the cargo-handling capacity of the port will expand to up to 7.0 million tonnes per annum. Further modernization envisages the completion of construction of deepwater berth and approach channel. The port s proximity to roads and rail links to key product destinations and transshipment points in China and Russia make it a cost-effective link in the logistical chain for bringing our coal products to the market.

In 2014, Mecheltrans transported for export approximately 16.3 million tonnes of our cargo, approximately 87.2% of which was comprised of coal and iron ore concentrate.

Market share and competition

Coal

According to the Central Dispatching Department, in 2014, the Russian coal mining industry was represented by 193 companies, which operated 74 underground mines and 119 open pit mines. As a result of the privatization of 1990s and subsequent mergers and acquisitions, the Russian coal mining industry has become more concentrated. Based on the Central Dispatching Department s data and our estimates, the ten largest coal mining companies in Russia produced approximately 75% of the overall coal production volume in 2014.

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According to data from the Central Dispatching Department, companies websites and our estimates, in 2014, we were the second largest coking coal producer in Russia, with an 18.3% share of total production by volume, and we had a 6.3% market share with respect to overall Russian coal production by volume. The following table lists the main Russian coking coal producers in 2014, the industrial groups to which they belong, their coking coal production volumes and their share of total Russian production volume.

Group	Company	Coking Coal Production (Thousands of Tonnes)	% of Coking Coal Production by Volume
EVRAZ plc	Yuzhkuzbassugol Coal Company OAO	10,789	13.5%
	Raspadskaya OAO	10,222	12.8%
	EVRAZ Total	21,011	26.3%
Mechel OAO	Yakutugol Holding Company OAO	8,867	11.1%
	Southern Kuzbass Coal Company OAO	5,044	6.3%
	Elgaugol OOO	720	0.9%
	Mechel Total	14,631	18.3%
Severstal OAO	Vorkutaugol OAO	11,360	14.2%
Sibuglemet Holding	Mezhdurechye OAO(1)	4,301	5.4%
	Bolshevik Mine OAO	1,224	1.5%
	Antonovskaya Mine ZAO	761	1.0%
	Sibuglemet Total	6,286	7.9%
UMMC	Kuzbassrazrezugol Coal Company OAO	5,317	6.6%
SUEK OAO	SUEK-Kuzbass	4,766	6.0%
Stroyservis ZAO	Berezovskiy Open-Cut Mine OOO	1,980	2.5%
	Shestacki Open-Cut Mine OAO	1,013	1.3%
	Barzasskoye tovarischestvo OOO	808	1.0%
	Shahta No. 12 OOO	585	0.7%
	Stroyservis Total	4,386	5.5%
MMK OAO	Belon OAO	3,658	4.6%
Other		8,474	10.6%
Total		79,889	100.0%

Source: Central Dispatching Department, companies websites and our estimates.

(1) We own approximately 11.11% of Mezhdurechye OAO.

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According to data from the Central Dispatching Department, companies websites and our estimates, in 2014, we were the seventh largest steam coal producer in Russia, with a 2.9% share of total production by volume. The following table lists the main Russian steam coal producers in 2014, the groups to which they belong, their steam coal production volumes and their share of total Russian steam coal production volume.

Group	Company	Steam Coal Production (Thousands of Tonnes)	% of Steam Coal Production by Volume
SUEK OAO	SUEK OAO (Kemerovo region)	28,328	10.2%
	SUEK OAO (Krasnoyarsk Krai)	26,977	9.7%
	SUEK OAO (Tugnuysky Open Pit)	13,229	4.8%
	SUEK OAO (Republic of Khakasia)	11,733	4.2%
	Urgalugol OAO	5,384	1.9%
	Primorskugol OAO	3,488	1.3%
	SUEK OAO (Kharanorsky Open Pit)	2,790	1.0%
	SUEK OAO (Chitaugol)	1,159	0.4%
	SUEK OAO (Apsatsky Open Pit)	1,007	0.4%
	SUEK Total	94,095	33.9%
UMMC	Kuzbassrazrezugol Coal Company OAO	38,666	13.9%
SDS Holding Company	Chernigovets OAO	6,181	2.2%
	Listvyazhnaya Shaft Mine OOO	6,002	2.2%
	Mayskoe OOO	3,931	1.4%
	Salek ZAO	3,743	1.3%
	Yuzhnaya Shaft Mine OAO	2,887	1.0%
	Kiselevsky Open Pit Mine OOO	2,458	0.9%
	Sibenergougol OOO	1,578	0.6%
	Prokopyevsky Open Pit Mine ZAO	881	0.3%
	Energetic Open Pit Mine OOO	857	0.3%
	SDS Total	28,518	10.2%
En+ Group	Vostsibugol OOO (Irkutsk region)	10,089	3.6%
	Vostsibugol OOO (Irbeysky Open Pit Mine)	1,873	0.7%
	Tuvinskaya Mining Company OOO	676	0.2%
	En+ Total	12,638	4.5%
Kuzbasskaya Toplivnaya Co	Kuzbasskaya Toplivnaya Co	10,608	3.8%
Russian Coal Co	UK Stepnoy Open Pit Mine OOO	4,020	1.5%
	Amurugol ZAO	3,164	1.1%
	Zadubrovsky Open Pit Mine OOO	925	0.3%
	RUK OOO (Evtinsky site)	310	0.1%
	Russian Coal Total	8,419	3.0%
Mechel OAO	Southern Kuzbass Coal Company OAO	6,922	2.5%
	Yakutugol Holding Company OAO	606	0.2%
	Elgaugol OOO	453	0.2%

	Mechel Total	7,981	2.9%
Zarechnaya Coal Company	Zarechnaya Mine OAO	2,880	1.0%
	Oktyabrskaya Mine OAO	2,728	1.0%
	Karagaylinskoye Mine Office OOO	534	0.2%
	Alexievskaya Mine OAO	515	0.2%
	Zarechnaya Total	6,657	2.4%
Siberian Anthracite ZAO	Siberian Anthracite ZAO	4,696	1.7%
Other		66,015	23.7%
Total		278,293	100.0%

Source: Central Dispatching Department, companies websites and our estimates.

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In the domestic coal market, we compete primarily on the basis of price, as well as on the basis of the quality of coal, which in turn depends upon the quality of our production assets and the quality of our mineral reserves. Competition in the steam coal market is also affected by the fact that most steam power stations were built near specific steam coal sources and had their equipment customized to utilize the particular type of coal produced at the relevant local source. Outside of Russia, competition in the steam coal market is largely driven by coal quality, including volatile matter and calorie content.

Iron ore

The Russian iron ore market is generally characterized by high demand and limited sources of supply, with product quality as the main factor driving prices. According to Metal Expert, the market is dominated by relatively few producers, with the top three mining groups being Metalloinvest, Severstal and NLMK, representing approximately 70% of total production of iron ore concentrate. We were seventh in production volume in 2014 with 3.2 million tonnes of iron ore concentrate, representing 3.3% of total production of iron ore concentrate in Russia.

Mineral reserves (coal, iron ore and limestone)

Coal and iron ore

Our coal and iron ore reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our coal and iron ore reserves are presented in accordance with the criteria for internationally recognized reserve and resource categories of the Australasian Code for Reporting Mineral Resources and Ore Reserves (as amended) published by the Joint Ore Reserves Committee (**JORC**) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the **JORC Code**), and meet the standards set by the SEC in its Industry Guide 7. Information on our mineral reserves has been prepared by our internal mining engineers as of December 31, 2014. To prepare this information our internal mining engineers used resource and reserve estimates, actual and forecast production, operating costs, capital costs, geological plan maps, geological cross sections, mine advance maps in plan and cross section and price projections.

Our coal and iron ore reserve estimates contained herein inherently include a degree of uncertainty and depend to some extent on geological assumptions and statistical inferences which may ultimately prove to have been unreliable. Consequently, reserve estimates should be regularly revised based on actual production experience or new information and should therefore be expected to change. Notably, should we encounter mineralization or formations different from those predicted by past drilling, sampling and similar examinations, reserve estimates may have to be adjusted and mining plans may have to be altered in a way that might adversely affect our operations. Moreover, if the price of metallurgical coal, steam coal or iron ore declines, or stabilizes at a price lower than recent levels, or if production costs increase or recovery rates decrease, it may become uneconomical to recover reserves containing relatively lower grades of mineralization and consequently our reserves may decrease. Conversely, should the price of metallurgical coal, steam coal or iron ore stabilize at a materially higher price than currently assumed, or if production costs decrease or recovery rates increase, it may become economical to recover material at lower grades than that assumed here and consequently our reserves may increase.

The calculation of our reserves in Russia is based on the expected operational life of each deposit based on life-of-mine plans, which in many cases exceed the relevant license period for the deposit. Russian subsoil licenses are issued for defined boundaries and specific periods, generally about 20 years. Our declared reserves are contained within the current license boundary. Our Russian subsoil licenses expire on dates falling in 2020 through 2037.

However, in many cases, the life of the deposit is well beyond the license term. Based on Russian law and practice, as evidenced by our experience and publicly available information, including a number of court cases, it is reasonably likely that an incumbent subsoil user will be granted license extension through the end of the expected operational life of the deposit, provided that the licensee is not in violation of the material terms of the license. The cost for the license extension is not substantial. See Regulatory Matters Subsoil Licensing in Russia Extension of licenses. We have received extension of certain of our subsoil licenses which expired and we intend to extend the licenses for all deposits expected to remain productive subsequent to their license expiry dates. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits, Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Regulatory Matters Subsoil Licensing in Russia.

As of December 31, 2014, we had coal reserves totaling 3,074.5 million tonnes, of which approximately 75% was coking coal. The table below summarizes our coal reserves as of December 31, 2014.

Company	**Proved Reserves[1]**	**Probable Reserves[1]**	**Total**	**% in Open Pit**
		(In thousands of tonnes)		
Yakutugol	214,667	1,298	215,965	95.3%
Elgaugol	1,743,729	503,461	2,247,190	100.0%
Southern Kuzbass Coal Company	585,539	25,849	611,388	74.2%
Total	2,543,935	530,608	3,074,543	94.5%

(1) Reserves include adjustments for loss and dilution modifying factors.

The table below summarizes our reserves by coal type as of December 31, 2014.

Company	**Category**	**Coking Coal**	**Steam Coal**	**Anthracite**	**Lignite**	**Total[1]**
			(In thousands of tonnes)			
	Proved	118,093	13,146	0	83,428	214,667
	Probable	458	840	0	0	1,298
Yakutugol	Total	118,551	13,986	0	83,428	215,965
	Proved	1,480,747	262,982	0	0	1,743,729
	Probable	462,257	41,204	0	0	503,461
Elgaugol	Total	1,943,004	304,186	0	0	2,247,190
	Proved	215,406	250,668	119,465	0	585,539
	Probable	18,529	7,217	103	0	25,849

Southern Kuzbass Coal Company	Total	233,935	257,885	119,568	0	611,388
	Proved	1,814,246	526,796	119,465	83,428	2,543,935
	Probable	481,244	49,261	103	0	530,608
Total		2,295,490	576,057	119,568	83,428	3,074,543

(1) Reserves include adjustments for loss and dilution modifying factors.

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The table below sets forth reserves attributable to our Yakutugol mines as of December 31, 2014.

Mine	Proved Reserves	Probable Reserves	Total(1)(2)	Heat Value(3)	% Sulfur
	(In thousands of tonnes)			(In kcal/kg)	
Neryungrinsky Open Pit(4)	121,160	1,298	122,458	6,501-8,343	0.30
Kangalassky Open Pit(5)	83,428	0	83,428	3,837-4,107	0.30
Dzhebariki-Khaya Underground(5)	10,079	0	10,079	7,452-7,571	0.06-0.65
Total	214,667	1,298	215,965		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $84 per tonne (FCA basis) for coking coal and $42-$53 per tonne (FCA basis) for steam coal.
(3) Heat value is reported on a moisture- and ash-free basis.
(4) Mined coal is processed at the Neryungrinskaya Washing Plant. The average coal recovery factor is estimated to be 63%.
(5) Coal is sold as ROM without processing.

The table below sets forth reserves attributable to our Elgaugol mine as of December 31, 2014.

Mine	Proved Reserves	Probable Reserves	Total(1)(2)	Heat Value(3)	% Sulfur
	(In thousands of tonnes)			(In kcal/kg)	
Elga Open Pit(4)	1,743,729	503,461	2,247,190	7,500-8,600	0.30
Total	1,743,729	503,461	2,247,190		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $84 per tonne (FCA basis) for coking coal and $42-$53 per tonne (FCA basis) for steam coal.
(3) Heat value is reported on a moisture- and ash-free basis.
(4) Mined coal is processed at the Elginskaya Washing Plant. The average coal recovery factor is estimated to be 40%.

The table below sets forth reserves attributable to our Southern Kuzbass mines as of December 31, 2014.

Mine	Proved Reserves	Probable Reserves	Total(1)(2)(3)(4)	Heat Value(5)	% Sulfur
	(In thousands of tonnes)			(In kcal/kg)	
Krasnogorsky Open Pit	207,740	194	207,934	5,800	0.40
Olzherassky Open Pit	55,735	5,963	61,698	8,170	0.25

Tomusinsky Open Pit	10,397	4,400	14,797	8,350	0.30
Sibirginsky Open Pit	169,394	45	169,439	8,483	0.30
Sibirginskaya Underground	40,276	4,024	44,300	8,441	0.29
V.I. Lenina Underground	29,189	11,223	40,412	8,468	0.33
Olzherasskaya-Novaya Underground	35,825	0	35,825	7,900	0.30
Yerunakovskaya-1 Underground (project)	36,983	0	36,983	8,150	0.50
Yerunakovskaya-3 Underground (prospect)(6)					
Yerunakovskaya-2 Underground (prospect)(6)					
Olzherasskaya-Glubokaya Underground (prospect)(6)					
Usinskaya Underground (prospect)(6)					
Total	585,539	25,849	611,388		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.

(2) In estimating the reserves, we used approximately $94 per tonne (FCA basis) for coking coal and $26-$64 per tonne (FCA basis) for sized and washed steam coal.

(3) All mines except Tomusinsky Open Pit are 96.6% owned by us. Tomusinsky Open Pit is 74.7% owned by us. Reserves are presented on an assumed 100% basis.
(4) Mined coal is processed at Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. The average coal recovery factor is estimated to be 64.6% (within the range of 54-77%).
(5) Heat value is reported on a moisture- and ash-free basis.
(6) Not considered in the review because these prospects presently do not have mine plans.

As of December 31, 2014, we had iron ore reserves (proved and probable) totaling 170.5 million tonnes at an average iron grade of 27.9%. The table below summarizes iron ore reserves by mine as of December 31, 2014.

Mine	**Proved Reserves**	**Probable Reserves**	**Total[1][2][3]**	**Grade (Fe%)[4]**
		(In thousands of tonnes)		
Korshunovsky Open Pit	56,433	39,762	96,195	24.2
Rudnogorsky Open Pit	45,276	29,065	74,341	31.2
Total	101,709	68,827	170,536	27.9

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $77 per tonne (FCA basis) for iron ore concentrate.
(3) All mines are 90.0% owned by us. Reserves are presented on an assumed 100% basis.
(4) The average iron ore recovery factor is estimated to be within the range of 74-86%.

Limestone

Our limestone mineral reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our limestone mineral reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our reserves, consisting of proven and probable reserves, meet the requirements set by the SEC in its Industry Guide 7. Information on our limestone mineral reserves has been prepared by our internal mining engineers as of December 31, 2014. To prepare this information our internal mining engineers used resource and reserve estimates, actual and forecast production, operating costs, capital costs, geological plan maps, geological cross sections, mine advance maps in plan and cross section and price projections.

Proven reserves presented in accordance with Industry Guide 7 may be combined with probable reserves only if the difference in the degree of assurance between the two classes of reserves cannot be readily defined and a statement is made to that effect. Our limestone proven and probable reserves are presented as combined in this document because, though our deposits have been drilled to a high degree of assurance, due to the methodology used in Russia to estimate reserves the degree of assurance between the two categories cannot be readily defined.

The subsoil license for our limestone mineral reserves is issued for defined boundaries and expires in January 2034. Our declared limestone reserves are contained within the current license boundary.

As of December 31, 2014, we had limestone reserves (proven and probable) totaling 13.5 million tonnes at 55.2% calcium oxide. This estimation is made using the tonnages that are expected to be mined, taking into account dilution and losses, an average price of $6.10 per tonne of commodity limestone and currency conversions are carried out at average official exchange rates of the CBR.

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Steel Segment

Our steel segment comprises the production and sale of semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat steel products and high value-added metal products, including wire products, stampings and forgings, structural shapes, beams and rails. Within these product groups, we are further able to tailor various steel grades to meet specific end-user requirements. Our steel segment is supported by our mining segment, which includes iron ore concentrate and coke.

Our steel segment has production facilities in Russia, Lithuania and Ukraine. Our total steel output was 4.3 million tonnes in 2014, 4.6 million tonnes in 2013 and 6.5 million tonnes in 2012.

In 2014, we transferred our ferrosilicon producing subsidiary Bratsk Ferroalloy Plant to the steel segment. Bratsk Ferroalloy Plant s ferrosilicon production amounted to 90.3 thousand tonnes in 2014, 92.9 thousand tonnes in 2013 and 85.2 thousand tonnes in 2012.

Description of key products

Pig iron. Pig iron is an iron alloy with usual carbon content of above 2% which is produced from smelting iron ore feed (sinter, pellets and other ore materials) in the blast furnace. Liquid pig iron is used as an intermediate product in the manufacturing of steel. Cold pig iron can be used as charging material for steel manufacturing in basic oxygen furnaces, electric arc furnaces and in the manufacturing of cast iron in cupolas. Cold pig iron is brittle. We sell small volumes of pig iron from our Chelyabinsk Metallurgical Plant to third parties.

Semi-finished products. Semi-finished products typically require further milling before they are useful to end consumers. We offer semi-finished billets, blooms and slabs. Billets and blooms are precursors to long products and have a square cross section. The difference between billets and blooms is that blooms have a larger cross-section which is more than eight inches and is broken down in the mill to produce rails, I-beams, H-beams and sheet piling. Slabs are precursors to flat products and have a rectangular cross section. Such types of products can be produced both by continuous casting of liquid steel and by casting of liquid steel in casting forms with subsequent drafting on blooming mills. We offer our customers billets and blooms produced by Izhstal and Chelyabinsk Metallurgical Plant, as well as slabs produced by Chelyabinsk Metallurgical Plant.

Long steel products. Long steel products are rolled products used in many industrial sectors, particularly in the construction and engineering industries. They include various types of products, for example, rebar, calibrated long steel products and wire rod, which could be supplied both in bars and coils in a wide range of sizes. Our long steel products are manufactured at Chelyabinsk Metallurgical Plant, Izhstal and Beloretsk Metallurgical Plant.

We offer our customers a wide selection of long products produced from various steel grades, including rebar, calibrated long steel products, steel angles, round products, surface-conditioned steel products, wire rod and others.

Flat steel products. Flat steel products are manufactured by multiple drafting slabs in forming rolls with subsequent coiling or cutting into sheets. Plates are shipped after hot rolling or heat treatment. Coiled stock can be subject to cutting lengthwise into slit coils or crosswise into sheets. Stainless steel is used to manufacture plates and cold-rolled sheets in coils and flat sheets. Hot-rolled plates and carbon and alloyed coiled rolled products are manufactured at Chelyabinsk Metallurgical Plant.

Stampings and forgings. Stampings are special parts stamped from metal billets. Forgings are special products made through the application of localized compressive forces to metal. Forged metal is stronger than cast or machined metal. Our forgings and stampings are offered on a made-to-order basis according to minimum batches depending on the products sizes. Our product offerings include rollers and axles used in vehicle manufacturing; gears and wheels; bars; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its branch in Chelyabinsk.

Wire products. Wire products are the result of processing of wire rod and rolled band which are ready for use in manufacturing and consumer applications. Our wire products are manufactured at Izhstal, Beloretsk Metallurgical Plant and Vyartsilya Metal Products Plant in Russia and Mechel Nemunas in Lithuania. Our wide-ranging wire products line includes spring wire; bearing wire; precision alloy wire; high and low carbon concrete reinforcing wire; galvanized wire; copper-coated and bright welding wire; various types of nails; steel wire ropes specially engineered for the shipping, aerospace, oil and gas and construction industries; aerials for electric trams and buses; steel wire ropes for passenger and freight elevators; general-purpose wire; steel straps and clips; chain link fences; welded (reinforcing) meshes; and others.

Ferrosilicon. Ferrosilicon is used in ferrous metallurgy as a deoxidizer or as an alloying element for production of electrotechnical, spring wire, corrosion-resistant and heat resistant steel grades, or as a pig iron modifier. In nonferrous metallurgy, ferrosilicon is used as a reducing agent for production of nonferrous metals and alloys. We produce two types of ferrosilicon: with 65% and 75% silicon content in the alloy. The ferrosilicon we produce is a high-C ferrosilicon, which contains 0.1% carbon. We offer our customers ferrosilicon produced by Bratsk Ferroalloy Plant.

The following table sets out our production volumes by primary steel product categories and main products within these categories.

	2014	2013	2012
	(In thousands of tonnes)		
Pig Iron	3,946	3,743	4,161
Semi-Finished Steel Products, including:	970	1,292	2,596
Carbon and Low-Alloyed Semi-Finished Products	966	1,272	2,592
Long Steel Products, including:	2,721	2,727	3,302
Stainless Long Products	14	14	13
Alloyed Long Products	278	295	265
Rebar	1,575	1,515	2,018
Wire Rod	402	469	441
Low-Alloyed Engineering Steel	452	434	564
Flat Steel Products, including:	435	425	523
Stainless Flat Products	18	32	27
Carbon and Low-Alloyed Flat Products	417	393	496
Forgings, including:	61	66	72
Stainless Forgings	5	4	5
Alloyed Forgings	39	48	48
Carbon and Low-Alloyed Forgings	17	14	18
Stampings	84	102	111
Wire Products, including:	695	755	952
Wire	603	635	755
Ropes	45	45	54

Steel manufacturing process and types of steel

The most common steel manufacturing processes are production in a basic oxygen furnace (**BOF**) and production in an electric arc furnace (**EAF**).

In BOF steel manufacturing, steel is produced with less than 2% carbon content. The principal raw materials used to produce steel are liquid pig iron and scrap metal. The molten steel, depending on the products in which it will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, titanium and other components to give it special properties. Approximately 71% of the world s steel output is made in BOFs.

In EAF steel manufacturing, steel is generally produced from remelted scrap metal. Heat to melt the scrap metal is supplied from high-voltage electricity that arcs within the furnace between graphite electrodes and the scrap metal. This process is suitable for producing almost all steel grades, including stainless steel; however, it is limited in its use for production of high-purity carbon steel. Approximately 29% of the world s steel output is made in EAFs.

Steel products are broadly subdivided into two categories flat and long products. Flat products are hot-rolled or cold-rolled coils and sheets that are used in the engineering, pipe and manufacturing industries, as well as in the white goods and automotive industries. Long products are used for construction-type applications (beams, rebar) and the engineering industry. To create flat and long products, molten steel is cast in continuous-casting machines or casting forms (molds). The molten steel crystallizes and turns into semi-finished products in the form of blooms, slabs or ingots. Ingots and blooms have a square cross-section and are used for further processing into long products. Slabs have a rectangular cross-section and are used to make flat products. All semi-finished products are rolled at high temperatures, a process known as hot rolling. They are drawn and flattened through rollers to give the metal the desired dimensions and strength properties. Some flat steel products go through an additional step of rolling without heating, a process known as cold rolling and is used to obtain certain mechanical properties of the steel. After cold rolling, annealing in reheating furnaces with cooling that stress-relieves the metal is periodically required. Oil may be applied to the metal surface for protection from rust.

The properties of steel (strength, solidity, plasticity, magnetization, corrosion-resistance) may be modified to render it suitable for its intended future use by the addition by smelting of small amounts of other metals into the structure of the steel, varying the steel s chemical composition. For example, the carbon content of steel can be varied in order to change its plasticity, or chrome and nickel can be added to produce stainless steel. Resistance to corrosion can be achieved through application of special coatings (including polymeric coatings), galvanization, copper coating or tinning, painting and other treatments.

Ferrosilicon manufacturing process

Ferrosilicon is produced in EAFs in a continuous ore smelting process. Silicon is reduced from quartzite with coke and coal carbon and alloyed with steel cutting iron. Ferrosilicon is discharged from the furnace periodically. After cooling, metal ingots are split and sorted into various commercial fractions.

Steel segment production facilities

Most of our metallurgical plants have obtained a certificate of quality under ISO international standards. For example, the main manufacturing processes at Chelyabinsk Metallurgical Plant, Izhstal, Beloretsk Metallurgical Plant, Urals Stampings Plant and Donetsk Electrometallurgical Plant are ISO 9001:2008 certified. Donetsk Electrometallurgical Plant is also certified under environmental protection standard ISO 14001.

Chelyabinsk Metallurgical Plant

Chelyabinsk Metallurgical Plant is an integrated steel mill which produces flat and long carbon and stainless steel products, rail and beam sections and semi-finished products. Semi-finished products are used for further processing in Russia or our internal needs. Chelyabinsk Metallurgical Plant also produces pig iron which is used in the manufacturing of steel. Its customer base is largely comprised of customers from the construction, engineering and hardware industries. We acquired Chelyabinsk Metallurgical Plant in 2001.

The plant sources its coking coal concentrate needs from Southern Kuzbass Coal Company and Yakutugol and its iron ore concentrate needs from Korshunov Mining Plant. In 2006, coke production and special steel production were separated from Chelyabinsk Metallurgical Plant into separate entities.

Chelyabinsk Metallurgical Plant s principal production lines include a BOF workshop equipped with three converters; two EAF workshops equipped with EAFs of 100 and 125 tonnes, respectively; five concasting machines; a blooming mill for 200-320 millimeter billets; five long products rolling mills for 6.5-190 millimeter round bars and 75-156 millimeter square bars, wire rod, rebar steel, bands and long products; a hot-rolled flat products workshop with a thick sheet continuous rolling mill for hot-rolled sheets of up to 1,800 millimeters wide and up to 20 millimeters thick; a semi-continuous rolling mill for up to 1,500 millimeters wide and up to 6 millimeters thick hot-rolled coils; a cold-rolled product workshop for 0.3-4 millimeter cold-rolled stainless sheet. In addition, we have at our Chelyabinsk Metallurgical Plant four sintering machines and three blast furnaces. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Chelyabinsk Metallurgical Plant s principal production areas.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes, except for percentages)		
Sintering	5,252	95.5%	
Pig iron	4,300	91.8%	
Steel-making	5,177	77.6%	130
Rolling	4,751	78.3%	

Chelyabinsk Metallurgical Plant produced approximately 4.0 million tonnes of raw steel and 3.7 million tonnes of rolled products in 2014.

In 2008, we initiated construction of a universal rail and structural rolling mill at the Chelyabinsk Metallurgical Plant. The project is aimed at producing new types of large section structural shapes (including beams, angles, rails, channels and special sections) with total output 1.1 million tonnes per annum. Italian Danieli & C. Officine Meccaniche S.p.A. (**Danieli**) is the equipment supplier and Chinese Minmetals Engineering Co. Ltd. (**Minmetals**) is the general contractor. Investments will amount to $732.7 million. In July 2013, the universal rail and structural rolling mill was launched. At present, phased guarantee tests of the equipment with the development of production and field tests of rails in order to obtain certificate of conformity are being carried out.

We expect that the main target customers for the universal rolling mill products will be Russian Railways and construction companies. On November 13, 2008, Chelyabinsk Metallurgical Plant and Russian Railways signed an agreement for the supply of rails for the period until 2030. The annual minimum supply volume is fixed at 400 thousand tonnes of rail. Performance under the agreement is subject to the certification of rail products produced at the universal rolling mill, which began in 2014.

In December 2010, Mechel Materials started assembling the main manufacturing equipment of the grinding-mixing complex for Portland blast-furnace slag cement production with 1.6 million tonnes capacity per annum in the territory of Chelyabinsk Metallurgical Plant. The main raw material is blast furnace slag produced by Chelyabinsk Metallurgical Plant. This complex is the first Russian facility to produce high-quality Portland blast-furnace slag cement of certain grades (CEMIII/A, CEMIII/B, CEMIII/C). Portland blast-furnace slag cement is widely used in the construction industry for the production of reinforced concrete structures. The general contractor is Austrian FMW GmbH. The amount to be invested is $168.7 million. In 2013, construction and assembly and commissioning works on the basic process equipment were completed and production in the mode of experimental-industrial testing commenced. In 2014, we mastered production of two grades of cement (CEMIII/A-32,5N, CEMIII/A-42,5N) and ground granulated blast-furnace slag which is a new material for concrete and cement production. In 2014, production of experimental products in the mode of experimental-industrial testing amounted to 65 thousand tonnes. The construction of infrastructure facilities of the grinding-mixing complex is ongoing and we expect to increase the production volume of experimental products. The commissioning of the grinding-mixing complex is scheduled for 2015.

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Izhstal

Izhstal is a special steel producer located in the western Urals city of Izhevsk, in the Republic of Udmurtia, a Russian administrative region also known as Udmurtia. Its customer base is largely comprised of companies from the aircraft, defense, engineering, automotive and construction industries. We acquired Izhstal in 2004.

Izhstal s principal production facilities include two EAFs of 25 and 40 tonnes; two ladle furnaces and a ladle vacuum oxygen decarburizer; a blooming mill for 100-220 millimeter billets; two medium-sized long products rolling mills for 30-120 millimeter round bars, 30-90 millimeter square bars, bands and hexagonal bars; and one continuous small sort wire mill for 5.5-29 millimeter round, 12-28 millimeter square and 12-27 millimeter hexagonal light sections, reinforced steel and bands. In June 2011, wire products production, which includes various drawing machines, a pickling line, bell furnaces and patenting lines, was spun-off into a branch of Beloretsk Metallurgical Plant. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Izhstal s principal production areas.

Production Area	**Capacity in 2014**	**Capacity Utilization Rate in 2014**	**Planned Increase (2015-2017)**
	(In thousands of tonnes, except for percentages)		
Steel-making	351	60.1%	
Rolling	420	70.9%	
Wire products	6	7.2%	

Izhstal produced approximately 210.8 thousand tonnes of raw steel, 297.7 thousand tonnes of rolled products and approximately 0.4 thousand tonnes of wire products in 2014.

Beloretsk Metallurgical Plant

Beloretsk Metallurgical Plant is a wire products plant in Beloretsk, in the southern part of Ural Mountains, which produces wire rod and a broad range of wire products from semi-finished products supplied by Chelyabinsk Metallurgical Plant and third party suppliers. Its customers are largely from the construction and railways repair industries. We acquired Beloretsk Metallurgical Plant in 2002.

Beloretsk Metallurgical Plant s principal production lines include a steel-rolling workshop equipped with a wire mill for production of 5.5-13.5 millimeter wire rod; a number of wire products workshops equipped with drawing, rewinding, wire stranding, cabling and closing machines and heat treatment furnaces, wire annealing and galvanizing, patenting and galvanizing lines; low relaxation prestressed concrete wire and strand lines and a cold rolling line. In June 2011, wire products production facilities were transferred to Beloretsk Metallurgical Plant from Izhstal. In September 2014, in order to optimize costs these production facilities were moved to Beloretsk Metallurgical Plant. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Beloretsk Metallurgical Plant s principal production areas.

Production Area	**Capacity in 2014**	**Capacity Utilization Rate in 2014**	**Planned Increase (2015-2017)**

	(In thousands of tonnes, except for percentages)	
Rolling	630	91.2%
Wire products	657	83.3%

Beloretsk Metallurgical Plant produced a total of 547.2 thousand tonnes of wire products in 2014. Rolled products production in 2014 amounted to a total of 574.4 thousand tonnes, of which 473.1 thousand tonnes were further processed into wire products and 101.3 thousand tonnes constituted the output volume of wire rod for third party customers.

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Vyartsilya Metal Products Plant

Vyartsilya Metal Products Plant is a wire products plant in the Republic of Karelia, an administrative region in the northwest of Russia near the Finnish border that produces low carbon welding, general-purpose and structural wire, nails and steel bright and polymeric-coated chain link fences. The plant uses wire rod supplied by Chelyabinsk Metallurgical Plant and Beloretsk Metallurgical Plant. The plant s customers are largely from the construction industry. We acquired Vyartsilya Metal Products Plant in 2002.

Vyartsilya Metal Products Plant s principal production facilities include drawing machines, annealing furnaces, chain linking machines, nail-making presses and cutting machines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Vyartsilya Metal Products Plant s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes, except for percentages)		
Wire products	126	58.2%	

Vyartsilya Metal Products Plant produced 73.1 thousand tonnes of wire products in 2014.

Urals Stampings Plant

Urals Stampings Plant produces stampings and forgings from special steels and heat-resistant and titanium alloys for the aerospace, oil and gas, heavy engineering, railway transportation, power and other industries. Urals Stampings Plant sources its special steel needs from Chelyabinsk Metallurgical Plant. We acquired Urals Stampings Plant in 2003.

Principal production facilities of Urals Stampings Plant and its branch in Chelyabinsk include 1.5-25 tonne swages and hydraulic presses. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Urals Stampings Plant s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes, except for percentages)		
Stampings and forgings	191	75.9%	

Urals Stampings Plant produced 145.0 thousand tonnes of special steel stampings and forgings in 2014.

Mechel Nemunas

Mechel Nemunas is a Lithuanian wire products plant located in Kaunas that produces hard-drawn, annealed, electrode and concrete reinforcement wire, nails, steel wire fiber and chain link fences. Its customers are primarily from the construction industry of Europe and Baltic countries. We acquired Mechel Nemunas in 2003.

Mechel Nemunas s principal production facilities include drawing machines, nail-making presses, equipment for fiber production, chain linking machines and bell furnaces. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Mechel Nemunas s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes, except for percentages)		
Wire products	90	82.5%	

99

Mechel Nemunas produced 74.2 thousand tonnes of wire products in 2014.

Bratsk Ferroalloy Plant

Bratsk Ferroalloy Plant is the largest enterprise in Eastern Siberia producing high-grade ferrosilicon. Ferrosilicon is used in the steel-making industry as a deoxidizer for manufacturing of most steel grades, including carbon and stainless steel grades; or as an alloying element for the production of insulating, acid-proof and heatproof steel grades; or as a pig iron modifier; and as a reducing agent for the production of nonferrous metals and alloys. Approximately 5-6 kg of ferrosilicon is used in every tonne of steel produced. We acquired Bratsk Ferroalloy Plant in 2007.

The main production facilities of the plant include three ore-thermal furnaces with a capacity of 25 megavolt-amperes (**MVA**) and one ore-thermal furnace with a capacity of 33 MVA. In October 2010, we signed contracts with Siberian Plant of Electrothermal Equipment (Sibelectrotherm JSC, Novosibirsk) for the supply of four ore-thermal furnaces with a capacity of 33 MVA each to replace the existing furnaces. We commenced commercial operations of the first new furnace in the second quarter of 2013. Currently, assemblage of the second furnace is being carried out. The launch of this furnace is scheduled for the beginning of 2016. Following the commissioning of the second new furnace, Bratsk Ferroalloy Plant s production capacity is expected to increase by 15%.

The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Bratsk Ferroalloy Plant s principal production area.

Production Area	Capacity in 2014	Capacity Utilization Rate in 2014	Planned Increase (2015-2017)
	(In thousands of tonnes, except for percentages)		
Ferrosilicon	91	98.9%	

Bratsk Ferroalloy Plant produced 90.3 thousand tonnes of ferrosilicon in 2014.

Donetsk Electrometallurgical Plant

Donetsk Electrometallurgical Plant is a Ukrainian plant located in Donetsk, which specializes in the production of continuous cast billets and rolled round billets from high-quality grades of steel with heat treatment. Donetsk Electrometallurgical Plant s principal production facilities include an EAF of 130 tonnes; a ladle furnace; a vacuum degasser; a concasting machine; and a blooming workshop equipped with heat treatment machines. We acquired Donetsk Electrometallurgical Plant in 2011.

In the fourth quarter of 2012, production at Donetsk Electrometallurgical Plant was suspended due to adverse market conditions.

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Sales of steel segment products

The following table sets forth our revenues by primary steel segment product categories and our main products within these categories (including as a percentage of total steel segment revenues) for the periods indicated.

	2014		2013		2012	
Product	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Pig Iron	82.2	2.2%	69.1	1.4%	110.1	1.6%
Semi-Finished Steel Products, including:	78.4	2.1%	443.9	8.6%	1,175.4	17.2%
Carbon and Low-Alloyed Semi-Finished Products	63.7	1.7%	417.6	8.1%	1,005.4	14.7%
Long Steel Products, including:	1,879.8	51.6%	2,447.0	47.7%	2,860.7	41.7%
Stainless Long Products	27.5	0.8%	42.7	0.8%	42.1	0.6%
Other Long Products	694.5	19.1%	845.8	16.5%	1,005.9	14.7%
Rebar	1,047.5	28.7%	1,439.8	28.1%	1,689.4	24.6%
Wire Rod	110.3	3.0%	118.7	2.3%	123.3	1.8%
Flat Steel Products, including:	383.5	10.5%	524.2	10.2%	636.1	9.3%
Stainless Flat Products	92.1	2.5%	132.4	2.6%	147.2	2.2%
Carbon and Low-Alloyed Flat Products	291.4	8.0%	391.8	7.6%	488.9	7.1%
Forgings, including:	116.9	3.2%	156.2	3.0%	152.9	2.2%
Stainless Forgings	30.4	0.8%	24.5	0.5%	39.4	0.6%
Other Forgings	86.5	2.4%	131.7	2.5%	113.5	1.6%
Stampings	196.9	5.4%	250.2	4.9%	289.7	4.2%
Wire Products, including:	592.7	16.3%	760.1	14.8%	889.0	13.0%
Wire	395.6	10.9%	479.4	9.3%	593.2	8.7%
Ropes	54.9	1.5%	75.3	1.5%	83.1	1.2%
Other Wire Products	142.2	3.9%	205.4	4.0%	212.7	3.1%
Steel Pipes	89.9	2.5%	182.5	3.6%	261.1	3.8%
Ferrosilicon	71.2	2.0%	77.0	1.5%	65.6	1.0%
Other	152.3	4.2%	221.9	4.3%	412.0	6.0%
Total	3,643.8	100.0%	5,132.1	100.0%	6,852.6	100.0%

The following table sets forth by percentage of sales the regions in which our steel segment products were sold for the periods indicated.

Region[(1)]	**2014**	**2013**	**2012**
Russia	68.5%	63.8%	56.8%
Europe	15.7%	17.5%	18.7%
CIS	12.4%	11.6%	10.5%
Asia	1.4%	2.8%	3.5%
Middle East[(2)]	1.0%	3.3%	7.5%

Other	0.7%	0.8%	2.1%
United States	0.3%	0.2%	0.9%
Total	100.0%	100.0%	100.0%

(1) The regional breakdown of sales is based on the geographic location of our customers, and not on the location of the end users of our products, as our customers are often distributors that resell and, in some cases, further export our products.

(2) Our steel segment sales to Middle East primarily go to Turkey, which accounted for 65.3% of the total steel segment sales to Middle East in 2014. We did not have any direct sales to Iran and Syria in 2014, and we have no plans to make such direct sales in the future.

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In 2014, the five largest customers of our steel products were Pervouralsk New Pipe Plant (long steel products, pig iron, semi-finished products, flat steel products, forgings), EVRAZ (long steel products, flat steel products, wire products, pipes), Dream Holding International LTD (long steel products), NEWBURY GLOBAL LTD (long steel products, flat steel products) and NEFTEMASH OOO (long steel products, forgings, wire products, flat steel products, semi-finished products), which together accounted for 5.7% of our total steel segment sales.

In 2014, the five largest customers of ferrosilicon were Severstal, Mitsui & Co., MMK, Globalalloy Technologies Co., Ltd and Dneprovsky Iron & Steel Works n. a. Dzerzhinsky, PJSC, which together accounted for 1.3% of our total steel segment sales.

During 2014, the volume of operations with the related metallurgical plants and Metallurg-Trust declined significantly compared to previous years due to the temporary suspension of operations of certain of the metallurgical plants and the initiation of bankruptcy proceedings against these companies in the fourth quarter of 2013-first half of 2014. Revenues from sales to the related metallurgical plants and Metallurg-Trust amounted to 2.9% of our steel segment sales in 2014. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The majority of our steel segment export sales are made to end users in non-sanctioned countries on a CFR and CPT basis. The remainder of our steel products is exported to independent distributors and traders on an FOB basis. We refer to such sales as indirect sales. Contracts with distributors and traders generally specify certain ports to which we must deliver our products. The distributors and traders take delivery of our products at these locations, and further on-sell the products to other distributors or end users. When these distributors take delivery of our products, we are provided in certain instances with documentation showing the further destination of our products. In case of indirect sales, we do not have control over the final destination of our products, contractually or otherwise.

Based on such documentation, we are aware that certain of our products are sold into and can be re-sold to countries that are subject to international trade restrictions or economic embargoes that prohibit and/or materially restrict certain persons (for instance, U.S. incorporated entities and U.S. citizens or residents) from engaging in commercial, financial or trade transactions with such countries, including Iran, Syria and Belarus (the **Sanctioned Countries**). We estimate that approximately 0.5% of our total sales in 2014 were sold in Belarus, of which 0.3% were indirect sales by independent distributors and traders to other distributors or end users and 0.2% were direct sales to end users.

We are aware of governmental initiatives in the United States and elsewhere to adopt laws, regulations or policies prohibiting or materially restricting transactions with or investment in, or requiring divestment from, entities doing business with the Sanctioned Countries. We recognize that acts prohibiting or restricting the foregoing can sometimes be applied to our company and that dealings with the Sanctioned Countries can have an adverse effect on our business reputation.

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The following table sets forth information on our domestic and export sales of our primary steel segment product categories for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 25 to the consolidated financial statements.

Product	2014	2013	2012
	(In millions of U.S. dollars, except for percentages)		
Pig Iron	82.2	69.1	110.1
Domestic Sales	52.3%	83.0%	46.2%
Export	47.7%	17.0%	53.8%
Semi-Finished Steel Products	78.4	443.9	1,175.5
Domestic Sales	47.4%	24.0%	27.5%
Export	52.6%	76.0%	72.5%
Long Steel Products	1,879.8	2,447.0	2,860.7
Domestic Sales	82.3%	85.2%	83.3%
Export	17.7%	14.8%	16.7%
Flat Steel Products	383.5	524.2	636.1
Domestic Sales	86.7%	89.8%	87.6%
Export	13.3%	10.2%	12.4%
Forgings	116.9	156.2	152.9
Domestic Sales	75.4%	77.0%	83.7%
Export	24.6%	23.0%	16.3%
Stampings	196.9	250.2	289.7
Domestic Sales	93.6%	93.9%	93.7%
Export	6.4%	6.1%	6.3%
Wire Products	592.7	760.1	889.0
Domestic Sales	85.0%	85.2%	80.7%
Export	15.0%	14.8%	19.3%
Steel Pipes	89.9	182.5	261.0
Domestic Sales	91.7%	96.7%	96.1%
Export	8.3%	3.3%	3.9%
Ferrosilicon	71.2	77.0	65.6
Domestic Sales	55.8%	57.0%	80.9%
Export	44.2%	43.0%	19.1%
Other	152.3	221.9	412.0
Domestic Sales	93.7%	93.4%	99.0%
Export	6.3%	6.6%	1.0%
Total	3,643.8	5,132.1	6,852.6
Domestic Sales	82.4%	80.9%	75.0%
Export	17.6%	19.1%	25.0%

The end users of our steel products vary. Our rebar is principally used in the construction industry. The main end users of our wire rod are construction companies and hardware production works. Our other long steel products are used in various moving parts manufactured by the automotive, engineering, pipe and construction industries. Our flat steel products are used in the construction (covers, floor plates) and pipe industries. Our forgings and stampings are primarily used in the engineering and pipe industries. The main end users of our wire products are the construction, mining, engineering and other industries.

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The following table sets forth by percentage a breakdown of our shipment volumes of all steel products produced in Russia by industry sector within the Russian market in 2014.

Use by Industry	Construction	Metals Trading	Ferrous Metallurgy	Engineering and Metalworking	Vehicles Manufacturing	Railways Construction and Repair	Other Industries[1]
Semi-Finished Steel Products	0.0%	0.3%	99.6%	0.0%	0.1%	0.0%	0.0%
Long Steel Products	37.1%	28.1%	9.5%	7.3%	2.5%	0.1%	15.4%
Flat Steel Products	13.4%	38.5%	20.8%	7.6%	4.2%	0.0%	15.5%
Forgings	0.0%	53.3%	27.5%	17.6%	1.6%	0.0%	0.0%
Stampings	0.0%	4.7%	0.0%	11.8%	83.4%	0.0%	0.1%
Wire Products	59.1%	25.5%	3.7%	2.5%	0.4%	0.0%	8.8%
Steel Pipes	22.0%	38.3%	12.2%	5.7%	2.2%	2.9%	16.7%

(1) Including mining and power industries and consumer goods sector.

Marketing and distribution

We use flexible sales strategies that are tailored to our customers and the markets we serve. Our overall sales strategy is to develop long-term close partnership with the end users of our products. As part of our end-user strategy, we research sales to distributors to identify the end user and directly market our steel capabilities and products to these customers. With respect to our largest end users, we have established working committees, composed of our manufacturing engineers and customer personnel. These committees meet quarterly to monitor the performance of our products and ensure that our customers specifications and quality requirements are consistently met. These committees also provide customers with the opportunity to discuss their future needs with us. Our sales force also regularly follows up with these and many of our other customers. We attend industry conferences and advertise in industry periodicals to market our products and capabilities. Through these efforts, we have established a strong brand identity for Mechel throughout Russia and other countries of the CIS, Central Europe, South-East Asia and the Middle East (in particular, Turkey).

Mechel Service Global, through its subsidiaries, provides end users in Russia, the CIS and Europe with our steel products. Mechel Service Global s subsidiaries help us to develop and service our long-standing customer relationships by providing highly specialized technical sales and service to our customers.

In 2014, most of our production facilities handled their domestic sales independently, and our export sales were marketed through Mechel Trading and Mechel Service Global.

Domestic sales

Our Russian steel production facilities Chelyabinsk Metallurgical Plant, Izhstal and Urals Stampings Plant are located in large industrial areas and have long-standing relationships with local wholesale customers. Mechel Service, a Russian subsidiary of Mechel Service Global, has 55 storage sites in 38 cities throughout Russia to serve our end users, which helps us to establish long-standing customer relationships by virtue of proximity to both production facilities and customers. Mechel Service had 1,256 employees as of December 31, 2014.

Ferrosilicon sales are conducted directly by our Bratsk Ferroalloy Plant. We supply ferrosilicon to the Russian market under annual contracts with monthly adjustment of prices and volumes. Price adjustments are based on the domestic spot market prices.

Export sales

Most of the exports in our steel segment are made to end users in non-sanctioned countries, with the rest sold to independent distributors and traders, which then resell our products to end users. Our export sales are carried out by our Swiss subsidiary Mechel Trading.

Our production facilities supply high-quality rolled steel products to the subsidiaries of Mechel Service Global in Western Europe either directly, or through the logistics center in the Port of Antwerp. Our logistics center in the Port of Antwerp also allows us to sell high-quality rolled steel products to manufacturing and service companies on a walk-in basis.

In 2014, ferrosilicon sales outside of Russia were principally to Japan. Deliveries to Japanese customers were carried out on CIF delivery terms (including transportation by railway, handling in ports of Nakhodka, Vladivostok and Vostochny and use major container lines to major Japanese ports and insurance). We mostly sell ferrosilicon on a spot basis.

Distribution

Rail transportation is used for most shipments from our production facilities and warehouses to our end customers, wholesale warehouses or seaports.

Market share and competition

In our core export markets, we primarily compete with other Russian producers, as well as producers from Ukraine, Belarus and China. The leading global steel manufacturers have been increasingly focused on value-added and higher-priced products. The principal competitive factors include price, distribution, product quality, product range and customer service.

In the Russian market, we compete on the basis of price and quality of steel products, their added value, product range and service, technological innovation and proximity to customers. The Russian steel industry is characterized by a relatively high concentration of production, with the six largest integrated steel producers, including ourselves, accounting for 81.8% of overall domestic crude steel output in 2014, according to Metal Expert.

The following is a brief description of Russia s five largest steel producers excluding ourselves:

Novolipetsk Steel OAO (**NLMK**) is Russia s largest steel manufacturer by volume, accounting for 20.7% of the volume of Russian commodity steel production in 2014. NLMK produces flat products (hot-rolled and cold-rolled), galvanized products and slabs, as well as long products. The company s production facilities are located in Lipetsk (NLMK), in the Sverdlovsk region (long products producer NSMMZ and wire products producer NLMK-Metalware) and in the Kaluga region (long products producer NLMK-Kaluga). NLMK exported 58.0% of its steel products in 2014. Domestically, NLMK s largest customers are in the construction and oil and gas industries, followed by companies in the automotive sector. NLMK also controls iron ore producer Stoilensky GOK and coke producer Altai-Koks.

Magnitogorsk Iron & Steel Works OAO (**MMK**) is Russia s second largest steel manufacturer by volume, accounting for 18.0% of the volume of Russian commodity steel products output (including long products, flat products and semi-finished products) in 2014. MMK s product mix is comprised mostly of flat products, which accounted for 84.3% of its commercial steel products output (including semis) in 2014. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 27.9% of its output in 2014. Its production facilities are located in Magnitogorsk in the southern Urals. MMK also controls coking coal producer Belon OAO.

EVRAZ plc (**EVRAZ**), which includes Russian steel producers EVRAZ NTMK and EVRAZ ZSMK, is Russia s third largest steel manufacturer by volume on a consolidated basis, accounting for 16.1% of Russia s total commodity steel products output in 2014. EVRAZ focuses on the production of long products, including rebar, wire rod and profiled rolled products (such as rails, beams, channels and angles). EVRAZ exported 51.5% of its output in 2014. EVRAZ also controls iron ore producers EVRAZ KGOK, Evrazruda and EVRAZ Sukha Balka, as well as coking coal producers Yuzhkuzbassugol Coal Company OAO and Raspadskaya OAO.

Severstal OAO (**Severstal**) had a 15.3% share by volume of Russian commodity steel products output in 2014. The company specializes in flat products which constitute a significant part of its production. Severstal is the second-leading producer of flat products, accounting for 28.6% of Russia s total flat products output in 2014. Domestic sales of flat products accounted for 64.8% of Severstal s output in 2014, with the oil and gas industry and automotive sector as its leading customers. Severstal controls coal producer VorkutaUgol and iron ore producers Karelsky Okatysh and Olenegorsky GOK, which satisfy a portion of Severstal s coking coal and iron ore requirements. Severstal also controls Long Product Mill Balakovo.

Metalloinvest Holding Company OAO (**Metalloinvest**), whose Russian assets consist of Oskolsky Electric Metallurgical Works OAO (**OEMK**) and Ural Steel OAO, had a 5.5% share of Russian commodity steel products output in 2014. OEMK produces long products only, and Ural Steel produces both long and flat products. Metalloinvest exported 63.3% of its commodity steel production in 2014. The company s production facilities are located in the Central and Urals federal districts of Russia. Metalloinvest also controls Russia s largest iron ore and pellets production facilities Lebedinsky GOK OAO and Mikhailovsky GOK OAO.

Source: Company websites; Metal Expert.

These six companies, including ourselves, can be divided into two groups by product type. MMK, Severstal and NLMK focus mainly on flat products, while we, EVRAZ and Metalloinvest produce primarily long products. Mechel is the third largest and most comprehensive producer of special steel and alloys in Russia, and accounted for 15.8% of total Russian special steel output by volume in 2014, according to Chermet and Metal Expert. We are also the second largest producer of long steel products (excluding square billets) in Russia by volume, with significant market shares in both regular long steel products and special steel long products, according to Metal Expert.

In the Russian non-special steel long products category, our primary products and our market position by production volume in 2014 were as follows, according to Metal Expert:

Reinforcement bars (rebar) In rebar, we compete in the 6-40 millimeters range. In 2014, the largest domestic rebar producers were NLMK (20.7%), EVRAZ (19.7%), Mechel (17.6%), Severstal (10.0%) and MMK (6.3%).

Wire rod There were five major producers of wire rod in Russia in 2014: Mechel (32.7%), MMK (19.3%), NLMK (16.8%), EVRAZ (16.7%) and Severstal (14.5%).

OEMK, an EAF steel mill specializing in carbon and special steel long products and our nearest special steel competitor, is located in the southwest of Russia and serves customers in the pipe, engineering and ball-bearing industries.

According to Metal Expert and Chermet, we were one of the leading producers in Russia of special steel long products (bearing, tool, high-speed and stainless long steel) in 2014, producing 9.4% of the total Russian output by volume, and we held significant shares of Russian production volumes in 2014 of stainless long products (13.4%), tool steel (28.7%) and high-speed steel (43.9%).

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The following tables set forth additional information regarding our 2014 market shares in Russia for various categories of steel products.

All long products (excluding square billets)

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
EVRAZ plc	5,785	30.4%
Mechel OAO	3,008	15.8%
NLMK OAO	2,316	12.2%
MMK OAO	1,829	9.6%
Severstal OAO	1,597	8.4%
Metalloinvest OAO	723	3.8%
Other	3,797	19.8%
Total	19,055	100.0%

Source: Metal Expert.

Long products Wire rod[(1)]

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	868	32.6%
MMK OAO	513	19.3%
NLMK OAO	446	16.8%
EVRAZ plc	443	16.7%
Severstal OAO	389	14.6%
Total	2,659	100.0%

Source: Metal Expert.

(1) Including wire rod further processed into wire and other products within the same holding company.

Long products Rebar

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
NLMK OAO	1,871	20.7%
EVRAZ plc	1,785	19.7%
Mechel OAO	1,590	17.6%
Severstal OAO	907	10.0%
MMK OAO	565	6.3%
Other	2,327	25.7%
Total	9,045	100.0%

Source: Metal Expert.

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Flat stainless steel

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	17.7	54.1%
VMZ Red October	11.7	35.8%
Other	3.3	10.1%
Total	32.7	100.0%

Source: Metal Expert.

Wire products

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	624.1	28.8%
MMK-Metiz OAO	517.0	23.8%
Severstal-Metiz OAO	486.6	22.4%
NLMK-Metalware OOO	331.5	15.3%
EVRAZ plc	210.4	9.7%
Total	2,169.6	100.0%

Source: Metal Expert.

Wire products Spring wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	51.8	61.8%
Severstal-Metiz OAO	27.5	32.8%
MMK-Metiz OAO	4.5	5.4%

Total	83.8	100.0%

Source: Metal Expert.

Wire products High-tensile wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Severstal-Metiz OAO	49.9	50.8%
Mechel OAO	43.2	43.9%
MMK-Metiz OAO	5.2	5.3%
Total	98.3	100.0%

Source: Metal Expert.

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According to Metal Expert, Mechel is the third largest Russian producer of ferrosilicon by volume. In 2014, we had a 13.6% market share by volume of Russian ferrosilicon production.

Following is a brief description of Russia s other largest ferrosilicon producers, according to Metal Expert and the companies data:

Kuznetsk Ferroalloys OAO (**Kuznetsk Ferroalloys**) is the largest Russian ferrosilicon producer, with a 43.8% market share by production volume in 2014. It controls Yurginsk Ferroalloys Plant OAO. Kuznetsk Ferroalloys produces microsilica and quartzite. It is primarily export-oriented, having exported 94.9% of its ferrosilicon production volume in 2014.

Chelyabinsk Electro-Metallurgical Plant OAO (**ChEMK**) is the second largest Russian ferrosilicon producer, with a 21.8% market share by production volume in 2014. In addition it produces ferrochrome, silicomanganese and silicocalcium. ChEMK exports most of its production. In 2014, it exported 64.0% by volume of its ferrosilicon production.

The following table sets forth additional information regarding our 2014 ferrosilicon market share in Russia.

Manufacturer	Region	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)		
Kuznetsk Ferroalloys OAO	Kemerovo	286.3	43.8%
Chelyabinsk Electro-Metallurgical Plant OAO	Chelyabinsk	142.4	21.8%
Bratsk Ferroalloy Plant OOO	Irkutsk	88.9	13.6%
Yurginsk Ferroalloys Plant OAO	Kemerovo	81.0	12.4%
Serov Ferroalloys Plant OAO	Sverdlovsk	31.8	4.9%
Novolipetsk Steel OAO	Lipetsk	23.2	3.5%
Total		653.6	100.0%

Source: Metal Expert.

Raw materials

The principal raw materials we use in pig iron production are iron ore products (sinter of our own production and purchased oxidized pellets), coke and limestone. Pig iron is made in blast furnaces. For sinter production we use iron ore concentrate. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. In 2014, our steel-making operations used 6.3 million tonnes of iron ore feed, approximately 15% in the form of pellets and 85% in the form of sinter, and we internally sourced approximately 31% of our total iron ore concentrate requirements during this period. Korshunov Mining Plant supplied our steel segment with 1.9 million tonnes of iron ore concentrate in 2014. In 2014, we purchased most of the remaining part of our iron ore feed from Russian suppliers such as

Kachkanarsky GOK, Kovdorsky GOK, Vysokogorsky GOK and Bakalskoye Rudoupravlenie, as well as Kazakh suppliers such as Sokolov-Sarbai Mining Production Association under monthly, quarterly and annual contracts on market terms.

We process coking coal concentrate into coke at Mechel Coke and Moscow Coke and Gas Plant. In 2014, our production facilities used 4.3 million tonnes of coking coal concentrate (including 3.3 million tonnes used by Mechel Coke and 1.0 million tonnes used by Moscow Coke and Gas Plant), and 57% of total usage was sourced internally. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in ferrosilicon production at Bratsk Ferroalloy Plant. In 2014, we produced and internally used approximately 2.2 million tonnes of coke as well as produced and sold another approximately 0.4 million tonnes of coke to third parties.

We internally source all of our limestone requirements from our Pugachevsky Open Pit. In 2014, we supplied approximately 802.4 thousand tonnes of limestone to our steel production facilities.

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We produce 88% of steel in basic oxygen furnaces. In steel-making, scrap is used in the composition of feedstock, and we are approximately 44% self-sufficient in this raw material, which amounts to 394.8 thousand tonnes of scrap, sourcing the balance from various scrap traders. We generate our scrap supply through, among others, Mechel Vtormet, our scrap metal processing company.

In 2014, we used nickel sourced from Ufaleynickel and Normetimpeks ZAO in the production of stainless and other special steels. In 2014, our production facilities used 2.6 thousand tonnes of nickel.

In 2014, our production facilities used 29.1 thousand tonnes of ferrosilicon (including 27.2 thousand tonnes at Chelyabinsk Metallurgical Plant, 0.4 thousand tonnes at the Chelyabinsk branch of Urals Stampings Plant and 1.5 thousand tonnes at Izhstal), all of which was supplied by Bratsk Ferroalloy Plant.

Steel-making requires significant amounts of electricity to power EAFs, ladle furnaces and rolling mills and to produce sinter. In 2014, our steel operations consumed approximately 3.5 billion kWh of electricity, of which approximately 1.9 billion kWh was used at Chelyabinsk Metallurgical Plant. Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Urals Stampings Plant have power co-generation facilities, which are operated by Mechel Energo. In 2014, these facilities produced 1.3 billion kWh of electricity, yielding approximately 26% self-sufficiency overall for our group, which consumed 4.8 billion kWh of electricity in 2014. The balance was purchased in the wholesale and retail electricity markets. Aside from Southern Kuzbass Power Plant, which ran on steam coal in 2014, our power-generating facilities work on blast furnace and coke gas, which are by-products of our steel-making operations, and natural gas, which we purchase from Novatek and Gazprom. In 2014, we consumed 2,058.0 million cubic meters of blast furnace gas, 594.2 million cubic meters of coke gas and 949.4 million cubic meters of natural gas. In 2014, Southern Kuzbass Power Plant consumed 1.5 million tonnes of steam coal sourced mostly from our own coal mining assets.

Large amounts of water are also required in the production of steel. Water serves as a re-solvent, accelerator and washing agent. Water is used to cool equipment components, to carry away waste, to help produce and distribute heat and power and to dilute liquids. One of the principal sources of water is rivers, and many of our production facilities recirculate a portion of water used for their production needs. For example, Chelyabinsk Metallurgical Plant sources 88.9% of its water needs from recirculated water and the rest from a local river. Izhstal sources 80.5% of its water needs from recirculated water, 9.3% from recycled water and the rest from a storage reservoir. Beloretsk Metallurgical Plant sources 74.0% of its water needs from recirculated and recycled water and the rest from a storage reservoir and a local river.

Transportation costs are a significant component of our production costs and a factor in our price-competitiveness in export markets. Rail transportation is our principal means of transporting raw materials from our mines to processing facilities and products to domestic customers and to ports for shipment overseas. For a description of our railway freight and forwarding subsidiary, see Mining Segment Marketing and distribution above.

For a description of how seasonal factors impact our use and reserve levels of raw materials see Item 5. Operating and Financial Review and Prospects Trend Information.

Trade restrictions

Trade restrictions in the form of tariffs and duties are widespread in the steel industry. However, we are less exposed than most other Russian steel producers to these trade restrictions as restrictions on Russian exports have mainly been directed against flat products, whereas most of our exports consist of semi-finished products and long products. In addition, the abolition by the Russian government of steel export duties in 2002 has also effectively improved exports of Russian steel. In the future the Russian government may restore export duties on steel products and may also impose export duties on some raw materials, such as coal and iron ore concentrate.

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In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. In February 2013, the European Commission initiated an expiry review of the antidumping measures applicable to imports of ferrosilicon. In April 2014, the antidumping duty was extended for another five years.

Silicate Nickel Ore and Quartzite Production

Silicate nickel ore production

Through our acquisition of Oriel Resources in April-October 2008, we acquired a 90% interest in the Shevchenko nickel project (**Shevchenko**), located in northwestern Kazakhstan. In January 2009, we acquired the remaining 10% interest in Shevchenko, giving us a 100% interest.

The Shevchenko silicate nickel ore deposit is located in Kazakhstan s Kostanay region. The subsoil license for the Shevchenko deposit was issued by the Government of Kazakhstan in 1997 for a period of 20 years. Shevchenko is a development stage mineral asset without reportable reserves. Currently, relevant engineering studies are being undertaken.

The table below sets forth certain information regarding the subsoil license for our silicate nickel ore deposit.

License Area	License Holder	License Expiry Date	Status	Area (sq. km)	Year Production Commenced	Surface Land Use Rights
Shevchenko	Kazakhstansky Nickel Mining Company	March 2017	Feasibility study	103.8	n/a	Lease

Quartzite production

We hold the subsoil license for the Uvatskoye deposit of quartzite and quartzite sandstones, a raw material used for ferrosilicon production. The deposit is accessible by unpaved road and located 20 kilometers southwest of Nizhneudinsk in the Irkutsk region. In 2011, we conducted successful technological tests of an experimental batch of quartzite for smelting of ferrosilicon. We completed the exploration of the alluvial part of the southern area of the Uvatskoye deposit and applied to the Department for Subsoil Use for the Irkutsk region (**Irkutsknedra**) with a plan for the pilot commercial development of the alluvial part of the southern area. Irkutsknedra agreed the plan and recommended further geologic exploration within the entire license area of the Uvatskoye deposit. In 2012, drilling and sampling activities were conducted. Since 2013, we have been carrying out the pilot commercial development of the alluvial part of the southern area of the Uvatskoye deposit, with a view to develop the processing methods and technical and economic parameters of the deposit. Currently, in order to determine the qualitative characteristics of the mineral, laboratory studies of selected cores of the bedrock of the deposit are being conducted. We also continue the exploration of the other two areas of the Uvatskoye deposit. In light of the above, we are not able to state the amount of proven reserves for the Uvatskoye quartzite deposit.

The table below sets forth certain information regarding the subsoil license for our quartzite and quartzite sandstones deposit.

License Area	License Holder	License Expiry Date	Status[1]	Area (sq. km)	Year Production Commenced	Surface Land Use Rights
Uvatskoye	Bratsk Ferroalloy Plant	July 2033	Exploration and development	18.21	n/a	Lease

(1) Exploration and development refers to sites where preliminary work and drilling for calculation of mineral reserves are being carried out.

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Power Segment

Our power segment generates and sells electricity to our group companies and to external customers. It enables us to market high value-added products made from our steam coal, such as electricity and heat energy, and to increase the electric power self-sufficiency of the mining and steel segments of our business. Our power segment consists of a power generating plant Southern Kuzbass Power Plant with installed capacity of 554 MW, power co-generation facilities at Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Urals Stampings Plant with installed capacity of 229 MW, 24.7 MW and 3.5 MW, respectively, and a power distribution company Kuzbass Power Sales Company. Our subsidiary Mechel Energo manages our power business.

The following table sets out total volumes of electricity production by our power segment.

	2014	2013	2012
	(In million kWh)		
Electricity	3,682.1	3,972.3	4,272.6

Southern Kuzbass Power Plant

The Southern Kuzbass Power Plant is located in Kaltan in the Kemerovo region, which is in the southern part of Russia s coal-rich Kuzbass district. It has a total installed capacity of 554 MW and installed heat capacity of 506 Gcal/h. In 2014, the plant generated 2,100.2 million kWh of electricity and 710.8 thousand Gcal of heat energy. We acquired Southern Kuzbass Power Plant in 2007.

The Southern Kuzbass Power Plant uses steam coal as fuel, which is supplied to it from local sources, including our Southern Kuzbass Coal Company. In 2014, it consumed 1.2 million tonnes of steam coal sourced from Southern Kuzbass Coal Company.

The generation facilities of the Southern Kuzbass Power Plant are listed below:

Generation Unit No.	Year of Manufacture	Month and Year of Commissioning at Southern Kuzbass Power Plant	Installed Capacity (MW)	Electricity Production in 2014 (million kWh)
VK-50-2 LMZ	1950	April 1951	53	52.7
VK-50-2 LMZ	1950	November 1951	53	4.1
VK-50-2 LMZ	1950	August 1952	53	134.4
VK-50-2 LMZ	1952	February 1953	53	98.4
T-115-8,8 LMZ	1996	December 2003	113	598.3
T-88/106-90 LMZ	1953	July 1954	88	602.3
VK-50-2 LMZ	1954	December 1954	53	39.6
T-88/106-90 LMZ	1953	September 1956	88	570.4
Total			554	2,100.2

The plant sells electricity and capacity on the wholesale market only, as well as heat energy directly to consumers. In Russia it is common for thermal power plants to produce and sell heat energy, sometimes in the form of industrial steam and sometimes in the form of hot water, for business and residential heating and household use, which is distributed in towns and cities by a network of hot water distribution pipes. Southern Kuzbass Power Plant s heat energy is distributed at regulated prices in the form of hot water in the cities of Kaltan, Osinniki and Mezhdurechensk.

Kuzbass Power Sales Company

Kuzbass Power Sales Company is the largest power distribution company in the Kemerovo region. Its marketed power volume in 2014 amounted to 10.9 billion kWh. We acquired Kuzbass Power Sales Company in

2007. The addition of Kuzbass Power Sales Company, along with Southern Kuzbass Power Plant, allows us to improve the utilization of our existing power co-generation capabilities and provides a base for growth in the power industry.

Kuzbass Power Sales Company sells electricity on the retail market. The company sells electricity to households, social infrastructure companies, housing and public utilities and large industrial companies. Due to its area of operation, its primary industrial customers are in the mining and processing industries. It supplies electricity to end-consumers directly and also through one regional agent.

The company is included in the Register of Guaranteeing Suppliers of the Kemerovo region. For a discussion of guaranteeing suppliers, see Regulatory Matters Regulation of Russian Electricity Market Sales of electricity Retail electricity market.

Mechel Energo

Mechel Energo s core activity is the generation and sale of electricity, capacity and heat energy in the form of hot water and steam. In addition, it coordinates the supply of energy to our production facilities. The company has a separate business unit in Izhevsk, as well as branches in Chelyabinsk (including production department in Chebarkul), Beloretsk and Vidnoye. Mechel Energo also performs the functions of the sole executive body of its subsidiary Southern Kuzbass Power Plant.

Mechel Energo supplies heat energy (in the form of hot water and steam) at regulated prices to its consumers, including residential consumers and commercial customers, in the cities of Vidnoye, Chelyabinsk, Chebarkul, Beloretsk and Izhevsk.

Mechel Energo has co-generation facilities and operates using mainly blast furnace gas and coke gas, which is a by-product of steel-making, and natural gas, which we purchase from Novatek and Gazprom.

Mechel Energo s sales amounted to 5.2 billion kWh of electricity and 4.1 million Gcal of heat energy in 2014.

Capital Investment Program

We continually review our capital investment program in light of our cash flow, liquidity position, results of operations and market conditions. In light of the above factors, we may adjust our capital investment program. Our planned capital expenditures for 2015 are approximately 61% greater than our capital expenditures in 2014 due to Vnesheconombank s project financing for the development of the Elga coal deposit. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We will require a significant amount of cash to fund our capital investment program.

Our capital investment program includes capital spending of up to $2.2 billion for 2015-2017. Our capital investment program is primarily targeted at expanding the mining segment and increasing the efficiency of the steel segment and includes, among others, investments of approximately $2.0 billion in mining and approximately $189.8 million in steel. However, our ability to fully realize our capital investment program is constrained by our ability to generate cash flow, obtain additional financing and refinance or restructure existing indebtedness. We may be limited in our ability to obtain financing on a project finance basis which may impose further restrictions on the operations of the project or require the economic returns of the project to be shared with investors or lenders.

In the mining segment, we expect to direct approximately $1.7 billion to the development of the Elga coal deposit in 2015-2017. We will invest approximately $69.7 million in 2015-2017 for increasing coal production at Sibirginskaya Underground which is part of Southern Kuzbass Coal Company.

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The steel segment projects are targeted at expanding the share of high value-added products which we produce, while maintaining existing output, and are mainly focused on Chelyabinsk Metallurgical Plant. The main project, initiated in 2008, is the construction of a universal rail and structural rolling mill with a capacity of 1.1 million tonnes, which allows us to reduce the proportion of lower-value semi-finished products sales by increasing the production of high-quality rolled steel products and rails. The universal rail and structural rolling mill was launched in July 2013.

The table below sets forth the major items of our capital expenditures by segment and facility for 2015-2017 (including cumulatively the expenditures made since the launch of the relevant project):

	Planned Increase in Capacity and/or Other Improvement	Approximate Total Planned Expenditures[1] (In millions of U.S. dollars)	Year of Project Launch	Estimated Year of Completion
Mining Segment				
Maintenance expenditures	Maintaining current coal and iron ore mining and coal and iron ore concentrate production	109	2015	2017
Elgaugol				
Construction of a rail line to the Elga coal deposit and the development of the Elga coal deposit	Providing access to and the development of the coal deposit with increase of production capacity to 11.7 million tonnes per annum	3,777	2009	2017
Southern Kuzbass Coal Company				
Increase of coal production at Sibirginskaya Underground	Increase production output to 2.4 million tonnes per annum	199	2009	2017
Steel Segment				
Maintenance expenditures	Maintaining current output capacity	35	2015	2017
Chelyabinsk Metallurgical Plant				
Construction of rolling facilities in blooming building	Introducing new types of rolled products for construction industry with a design capacity of 1.1 million tonnes per annum	733	2009	2016
Reconstruction of oxygen-converter production	Increase of cast weight to 152 tonnes	131	2009	2017
Power segment				
Maintenance expenditures	Maintaining current output capacity	14	2015	2017
Transport division				
Maintenance expenditures	Maintaining current output capacity	8	2015	2017

Port Posiet				
Technical modernization of Port Posiet	Increase of cargo-handling capacity to 9.0 million tonnes per annum	132	2009	2017
Other				
Mechel Materials				
Construction of grinding-mixing complex for Portland cement and Portland blast-furnace slag cement production	Design capacity of 1.6 million tonnes of Portland cement per annum	169	2009	2015

(1) We estimate that approximately $159.2 million of planned expenditures were spent on the aforementioned projects in 2014. In 2014, we spent $223.6 million in total on capital expenditures.

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Research and Development

We maintain research programs at the corporate level and at certain of our business units to carry out research and applied technology development activities. At the corporate level, we have a Department of Metallurgical Production Technology Development at Mechel-Steel Management (two employees) and a Production and Technical Department at Mechel Mining Management (12 employees). In December 2008, we established Mechel Engineering with a headcount of 344 employees to carry out design and engineering works to increase the efficiency of our mining business. Mechel Engineering has a head office in Novosibirsk and two offices in Russia s regions. Geological services provided by Mechel Engineering include: (1) geological survey work related to prospecting and developing minerals and coal deposits; (2) hydrogeological survey work; (3) monitoring of geological environment; (4) preparation of geological materials for feasibility studies and preparation of geological reports with reserves estimation; (5) test drilling (methane drainage borehole); and (6) computer simulation of coal and ore deposits.

In the course of our research and development we also contract with third party consultants and Russian research institutions.

In addition to these activities performed at our corporate level, each of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant have specialized research divisions with a total of 173 employees involved in the improvement of existing technologies and products.

Our research and development expenses in the years ended December 31, 2014, 2013 and 2012 were not significant.

Insurance

Most of our Russian production facilities have no comprehensive insurance coverage against the risks associated with the business in which we operate, other than insurance required under Russian law, existing collective agreements, loan agreements or other undertakings. Our Russian facilities have a number of compulsory insurance policies: liability of the owner of a hazardous facility for injury in an accident at a hazardous facility, third-party liability motor vehicle insurance and other forms of insurance. Some of our facilities provide their workers with medical insurance and accident and health insurance in accordance with existing collective bargaining agreements. In addition, most of our Russian facilities have voluntary motor vehicle insurance, and some of our facilities have cargo insurance, property insurance (real property and machinery) and certain types of third-party liability insurance.

Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. However, they all have the compulsory insurance coverage required under the law of their respective jurisdictions: motor vehicle liability insurance, pollution liability insurance, employer liability, etc. Furthermore, some of our international facilities carry insurance coverage for their property (real property and machinery, inventory, motor vehicle), liability (third-party liability, professional and product liability), cargo (including freight insurance), accounts receivable, as well as medical insurance and accident insurance for their workers.

Environmental Protection

Similar to other companies operating in the industries in which we operate, our activities may have an adverse impact on the environment due to emission of coal and coke dust and other pollutants and hazardous materials into the atmosphere, discharge of polluted waste water into the environment and generation of waste and hazardous materials that need to be disposed of or reused without serious damage to the environment.

Our environmental policy has the following key components:

- implement formal environmental management systems that are aligned with applicable international standards;

identify, assess, monitor, control and manage significant environmental risks;

establish clear and meaningful environmental objectives and targets aimed at continuous improvement;

implement, maintain and regularly test emergency response plans;

identify potential environmental emergencies; and

comply with all applicable laws and regulations and when practicable, strive to exceed those requirements.
We have been developing and implementing environmental programs at all of our mining, steel and power subsidiaries. Such programs include measures to enforce our adherence to the requirements and limits imposed on air and water pollution, as well as disposal of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Regulatory Matters

Licensing of Operations in Russia

We are required to obtain numerous licenses, authorizations and permits from Russian governmental authorities for our operations. Some of our companies need to obtain licenses, authorizations and permits to carry out their activities, including, among other things, for:

the use of subsoil, which is described in more detail in Subsoil Licensing in Russia below;

the use of water resources;

the emission and discharge of pollutants into the environment;

the handling of waste of a I-IV hazard class;

the handling of industrial explosives;

operation of explosive and fire and chemically hazardous production facilities of a I-III hazard class;

fire control and security;

- medical operations;
- mine surveying;
- loading and unloading operations relating to dangerous goods;
- transportation activities; and
- storage, processing and sale of scrap.

The Federal Law On Licensing of Certain Types of Activities, dated May 4, 2011, as amended (the **Licensing Law**), as well as other laws and regulations, sets forth the activities subject to licensing and establish procedures for issuing licenses.

Under the Licensing Law, generally, licenses may be issued for an indefinite term. Licenses for the use of natural resources may be issued for various periods. Upon the expiration of a license, it may be extended upon application by the licensee, provided the licensee is not in violation of the terms and conditions of the license and the relevant regulations.

Regulatory authorities maintain considerable discretion in the timing of issuing licenses and permits. The requirements imposed by these authorities may be costly, time-consuming and may result in delays in the commencement or continuation of exploration or extraction operations. Further, private individuals and the public at large possess rights to comment on and otherwise participate in the licensing process, including through challenges in the courts. For example, individuals and public organizations may make claims or applications to Rosnedra regarding subsoil abuse, damage to the subsoil and general environmental issues. Rosnedra is required by law to review such claims and applications and to respond to those who file them. The agency can initiate further investigation in the course of reviewing claims and applications, and such investigations can lead to suspension of the subsoil license if the legal grounds for such suspension are identified in the course of the investigation. In addition, citizens may make claims in court against state authorities for failing to enforce environmental requirements (for example, if a breach by the licensee of its license terms caused damage to an individual s health, legal interests or rights), and pursuant to such a claim the court may order state authorities to suspend the subsoil license. Accordingly, the licenses we need may not be issued, or if issued, may not be issued in a timely fashion, or may impose requirements which restrict our ability to conduct our operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of our licenses and permits, some of our companies must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing in Russia

In Russia, mining minerals requires a subsoil license from Rosnedra with respect to an identified mineral deposit. In addition to a subsoil license, a subsoil user needs to obtain rights (through ownership, lease or other right) to use a land plot covering the surface of the area where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The primary law regulating subsoil licensing is the Federal Law On Subsoil, dated February 21, 1992, as amended (the **Subsoil Law**), which sets out the regime for granting licenses for the exploration and extraction of mineral resources. The Procedure for Subsoil Use Licensing, adopted by Resolution of the Supreme Soviet of the Russian Federation on July 15, 1992, as amended (the **Licensing Regulation**), also regulates the licensing of exploration and extraction of mineral resources. According to both the Subsoil Law and the Licensing Regulation, subsurface mineral resources are subject to the jurisdiction of the federal authorities.

Among different licenses required for mining minerals in Russia, the two major types of licenses are: (1) an exploration license, which is a non-exclusive license granting the right of geological exploration and assessment within the license area, and (2) an extraction license, which grants the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined licenses, which grant the right to explore and produce minerals from the license area. A subsoil license defines the license area in terms of latitude, longitude and depth. The subsoil user has the right to develop and use, including sell, mineral resources extracted from the license area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil mineral resources.

There are two major types of payments with respect to the extraction of minerals: (1) periodic payments for the use of subsoil under the Subsoil Law; and (2) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The Subsoil Law-mandated payments are not material to our mining segment s results of operations. For coal, the mineral extraction tax ranges from 11 to 57 rubles per tonne depending on the type of coal. For iron ore and for nickel, the mineral extraction tax is 4.8% and 8%, respectively. In 2014, mineral extraction taxes amounted to $25.0 million, which are included in the statement of income and comprehensive income as extraction related overheads.

Currently, extraction licenses and combined licenses are awarded by tender or auction conducted by special auction commissions of Rosnedra. While such tender or auction may involve a representative of the relevant region, the separate consent of regional authorities is generally not required in order to issue subsoil licenses. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, extraction licenses may also be issued without holding an auction or tender, for instance to holders of exploration licenses who discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue extraction licenses for common mineral resources, such as clay, sand or limestone.

Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a mining allotment, i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the license is issued. Following the development and approval of a technical plan in accordance with established procedure, documents defining the adjusted mining allotment boundaries are incorporated as an integral part into the license. Pursuant to Resolution No. 118 of the Government of the Russian Federation dated March 3, 2010, as amended, a special commission comprised of representatives from the Ministry of Natural Resources and Ecology, Rosnedra, Rosprirodnadzor, Rostekhnadzor and relevant local authorities approve development plans and other project documentation relating to the use of subsoil plots.

The term of the license is set forth in the license. Under the Subsoil Law, exploration licenses are generally issued for a term of up to five years and up to 10 years for geological surveys of internal sea waters, territorial sea waters or the continental shelf of the Russian Federation. In accordance with amendments to the Subsoil Law that entered into force in January 2014, exploration licenses with respect to subsoil plots partially or fully located in certain constituent entities of the Russian Federation can be issued for a term of up to seven years. Extraction licenses are issued for the term of the expected operational life of the field based on a feasibility study that provides for rational use and protection of the subsoil. In the event that a prior license with respect to a particular field is terminated early (for example, when a license is withdrawn due to non-usage of the licensed subsoil), an extraction license may have a one year term until a new licensee is determined, but is generally granted to another user for the term of the expected operational life of the field based on a feasibility study. Licensees are also allowed to apply for extensions of such licenses for the purposes of completing the exploration and development of the field, or remediation activities in the absence of violations of the terms and conditions of the license. The term of a subsoil license runs from the date the license is registered with Rosnedra.

Issuance of licenses

Subsoil licenses are issued by Rosnedra. Most of the currently existing extraction licenses owned by companies derive from: (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganized in the course of post-Soviet privatizations; or (2) tender or auction procedures held in the post-Soviet period. The Civil Code, the Subsoil Law and the Licensing Regulation contain the major requirements relating to tenders and auctions. The Subsoil Law allows extraction licenses to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration license at its own expense during the exploration phase.

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of an extraction license for the term of the expected operational life of the subsoil plot in order to complete the extraction from the subsoil plot covered by the license or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user is not in violation of the terms and conditions of the license and the relevant regulations.

In order to extend the period of a subsoil license, a company must file an application with territorial authorities of Rosnedra to amend the license. In addition, as we have seen in practice, a subsoil licensee may be required to prepare and provide to the authority amended technical documentation and development plan of the deposit under the license justifying the requested extension. The costs associated with the license extension are generally not substantial and mainly relate to preparing amendments to the technical documentation and development plan of the subsoil plot. Application to extend the period of subsoil license is typically made six months before its expiration.

To the best of our knowledge, derived from publicly available information, the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license consider the following: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license. We have successfully extended certain of our subsoil licenses which were due to expire for the entire term of the expected operational life of the subsoil plots. The terms of the licenses were extended in accordance with the amendments we made to the development plans of the subsoil plots. Furthermore, as evidenced by a number of court cases during the past several years, license extensions are being rejected predominantly on the grounds of subsoil users being in violation of the material terms of the licenses. Though current regulation does not specify what license terms are material, current practice suggest that regulatory authorities tend to treat as material terms of the license the terms related to license payments, production levels and operational milestones.

The factors that may, in practice, affect a company s ability to obtain the approval of license amendments (including extensions) include: (1) its compliance with the license terms and conditions; (2) its management s experience and expertise relating to subsoil issues; and (3) the relationship of its management with federal and/or local governmental authorities, as well as local governments. For a description of additional factors that may affect Russian companies ability to extend their licenses, see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits. See also Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Weaknesses relating to the Russian legal system and legislation create an uncertain investment climate.

Transfer of licenses

Licenses may be transferred only under certain limited circumstances that are set forth in the Subsoil Law, including the reorganization or merger of the licensee or in the event that an initial licensee transfers its license to a newly established legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or extraction activity covered by the transferred license.

Maintenance and termination of licenses

A license granted under the Subsoil Law is accompanied by a licensing agreement. The law provides that there will be two parties to any subsoil licensing agreement: the relevant state authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil.

Under a licensing agreement, the licensee makes certain environmental, safety and extraction commitments. For example, the licensee makes an extraction commitment to bring the field into extraction by a certain date and to extract an agreed-upon volume of natural resources each year. The licensing agreement may also contain commitments with respect to the social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a license are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfillment of a license s conditions is a major factor in the good standing of the license. If the subsoil licensee fails to fulfill the license s conditions, upon notice, the license may be terminated or the subsoil user s rights may be restricted by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or extraction output as set forth in a license, it may apply to amend the relevant license conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for license termination. A licensee can be fined or the license can be suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A license may also be terminated for violations of material license terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation or termination of licenses. Consistent underproduction and failure to meet obligations to finance a project would also be likely to constitute violations of material license terms. In addition, certain licenses provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for terminating the license.

Rosprirodnadzor routinely conducts scheduled and unscheduled inspections for compliance by subsoil users with the terms of their licenses and reports violations to Rosnedra. Rosnedra examines Rosprirodnadzor s reports and, if it finds that these violations constitute sufficient grounds for terminating the license, the Commission for Termination of Subsoil Licenses considers the nature of these violations and recommends that Rosnedra either (i) revoke the license; (ii) notify the subsoil user about the identified violations and potential termination of the license if the subsoil user fails to rectify the identified violations within a prescribed period of time; or (iii) consider that the actions described in (i) and (ii) above are unreasonable and accept the information provided by the subsoil user.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to the termination of a license or the refusal to change an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases prior to termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three month period, no termination or other action may be taken.

Land Use Rights in Russia

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate surface land use rights. Land use rights are needed and obtained for only the portions of the license area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code, companies generally have ownership or lease rights with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation is owned by federal, regional or municipal authorities who, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law On Introduction of the Land Code, dated October 25, 2001, as amended, with certain exceptions (such as for the land plots occupied with transportation, communications and utilities lines, for which companies may re-register the right of perpetual use until January 1, 2016), required companies using land pursuant to rights of perpetual use by July 1, 2012 either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority acting as owner of the land. Failure to transfer the title by January 1, 2013 triggers administrative liability. In case of the lease, the companies can still purchase such land after July 1, 2012 provided that they have registered the lease relating to the land.

Our mining subsidiaries generally have entered into long-term lease agreements for their surface land within the specified license mining area. Under Russian law, a lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any land lease agreement for a term of one year or more must be registered with the relevant state authorities.

Environmental Legislation in Russia

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the emission and discharge of substances into the air and water, the formation, distribution and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law On Environmental Protection, dated January 10, 2002, as amended (the **Environmental Protection Law**), as well as by a number of other federal, regional and local legal acts.

Since 2008, the Ministry of Natural Resources and Ecology has been working on significant amendments to the Environmental Protection Law and other regulations. These amendments were codified in the Federal Law No. 219-FZ, dated July 21, 2014, and are gradually coming into force starting from January 1, 2015. The purpose of the amendments is to strengthen liability for companies non-compliance with environmental laws and regulations, as well as to improve the distribution of functions among state environmental agencies at both the federal and regional levels.

The amendments, in particular, divide objects that have a negative impact on the environment into four categories depending on the degree of impact on the environment. The environmental protection requirements that apply differ depending on the relevant impact category and include environmental impact charges, permission documents and control procedures. The first category includes objects that have a significant negative impact on the environment (to which, therefore, the strictest environmental protection requirements apply) and the fourth category includes objects that have minimal environment impact. Among other things, the adopted amendments contemplate that starting from 2020 charges for environmental impact exceeding regulatory thresholds will increase. Furthermore, the liability for certain environmental violations has been enhanced recently, and the fines for certain environmental offenses, for example, in connection with violations of water use requirements, increased by 15 times the current amounts. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, cleanup costs and compensatory damages, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Pay-to-pollute

The Environmental Protection Law and other Russian environmental protection legislation establish a pay-to-pollute regime administered by federal and local authorities. Pay-to-pollute (or payments for environmental pollution) is a form of mandatory reimbursement to the Russian government for damage caused to the environment.

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The Russian government has established standards relating to the permissible impact on the environment and, in particular, standards of permissible emissions and discharges and waste disposal limits. In case of non-compliance with the statutory standards a company may obtain temporary approved limits on emissions and discharges on the basis of permits valid only during the period of implementation of environmental measures. The establishment of limits is allowed only upon the availability of a plan for emissions and discharges reduction agreed with Rosprirodnadzor. The emissions and discharges reduction plan is required to be implemented within a specific period, after which a report on implementation of the plan is submitted to Rosprirodnadzor. Rosprirodnadzor may revoke the limits, if the company fails to implement measures to reduce emissions and discharges in a timely manner. If, by the end of that period, the company s emissions and discharges are still in excess of the statutory standards, a new plan must be submitted to Rosprirodnadzor for review and approval in order to receive new limits.

Fees for the emission/discharge per tonne of each contaminant into air and water and fees for waste disposal are established by governmental authorities. These fees are determined on a sliding scale for both the statutory standards and individually approved limits on emissions and discharges, as well as for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory standards, intermediate fees are imposed for pollution within the individually approved temporary limits (within limit fees; exceed the fees within the statutory standards by 5 times) and the highest fees are imposed for pollution exceeding such limits (above-limit fees; exceed the fees within the individually approved temporary limits by 5 times). Thus, above-limit fees exceed the fees within the statutory standards by 25 times. In accordance with recent amendments to the Environmental Protection Law, starting from 2020, environmental impact charges exceeding regulatory thresholds in certain cases will be increased by up to 100 times current fees as statutorily prescribed. Payment of above-limit fees does not relieve the company from the responsibility as provided by Russian law, as well as the development and implementation of environmental measures aimed at reducing the negative impact on the environment. In 2014, we incurred above-limit fees and penalties in Russia in the amount of approximately $5.0 million.

Environmental expert review

According to the Federal Law On Environmental Expert Review dated November 23, 1995, as amended (the **EER Law**), environmental expert review is a process of verifying compliance of business or operational documentation with environmental standards and technical regulations for the purpose of preventing a negative environmental impact of such business or operations. The EER Law provides for the main principles for conducting environmental expert review and for the type of documentation which is subject to such review.

In relation to our operating companies, all documentation underlying the issuance of some of our licenses is subject to environmental expert review.

Review of documentation related to capital construction is regulated under the Urban Development Code. The Urban Development Code provides for governmental inspection to verify the compliance of project documentation with relevant technical regulations, including sanitary-epidemiological and environmental regulations, requirements for the protection of objects of cultural heritage, as well as fire, industrial, nuclear and other kinds of safety requirements, and compliance with the results of engineering surveys with relevant technical regulations.

Environmental enforcement authorities

Currently state environmental regulation is administered by several federal services and agencies and their regional subdivisions, in particular, Rosprirodnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, Rosnedra, the Federal Agency for Forestry, the Federal Agency for Water Resources and some others. Included in these agencies sphere of responsibility are environmental preservation and control, enforcement and observance of environmental legislation, drafting and approving regulations and filing court claims to recover environmental damages. The statute of limitations for such claims is 20 years.

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The Russian federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the work of the federal services and agencies engaged in state environmental regulation.

The structure of environmental enforcement authorities described above was established in 2004. This structure was subjected to certain changes in 2008 and 2010. In particular, the Ministry of Natural Resources was transformed into the Ministry of Natural Resources and Ecology. In late 2010, this structure was further changed and the powers previously held by Rostekhnadzor in the field of environmental protection regarding the limitation of negative industrial impact, waste treatment and state environmental impact assessments were transferred to Rosprirodnadzor which is coordinated by the Ministry of Natural Resources and Ecology.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose cleanup obligations on violators in lieu of or in addition to imposing fines or other penalties to compensate for damages.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the reclamation requirements are generally low; however, failure to comply with reclamation requirements can result in a suspension of mining operations.

Reclamation

We conduct our reclamation activities for land damaged by production in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of December 22, 1995, of the Ministry of Natural Resources. In general, our reclamation activities involve both a technical stage and a biological stage. In the technical stage, we backfill the pits, grade and terrace mound slopes, level the surface of the mounds, and add clay rock on top for greater adaptability of young plants. In the biological stage, we plant conifers (pine, larch, cedar) on horizontal and gently sloping surfaces and shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. In 2014, we incurred reclamation costs in Russia of approximately $5.0 million.

Kyoto Protocol

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on February 16, 2005. At the Doha 2012 United Nations Climate Change Conference Russia, Japan and some other countries announced suspension of their participation in the Kyoto Protocol. Therefore, we do not currently anticipate that further implementation of the Kyoto Protocol will have any material impact on our business.

Technical Regulations

We are subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Federal Law No. 184-FZ On Technical Regulation dated December 27, 2002, as amended (the **Technical Regulation Law**) has introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules or technical regulations would replace the previously adopted state standards (the so-called GOSTs). However, most technical regulations have not been implemented yet, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardization authority has declared GOSTs and interstate standards adopted before July 1, 2003 to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. A number of our products must be certified. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

Health and Safety Regulations in Russia

Due to the nature of our business, much of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law On Industrial Safety of Hazardous Production Facilities, dated July 21, 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to production facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and nonferrous metals are produced, where hazardous substances are stored and used (including allowed concentrations) and where certain types of mining is done. There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises and the foundry industry.

The Safety Law provides for hazardous production facilities of four classes from class IV to class I, with class IV being less hazardous and class I being the most hazardous. The safety and compliance requirements set up by the Safety Law apply to each facility depending on their class of hazard. Each existing hazardous production facility was to be re-registered with the state register by January 1, 2014 and be assigned with a hazard class. We re-registered hazardous production facilities at our operations in accordance with the applicable law.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert organization and approved by Rostekhnadzor.

In addition, the Safety Law establishes an alternative form of industrial safety regulation that is based on risk assessment rather than prescriptions of obligatory requirements and standards imposed by Rostekhnadzor. A company that operates a hazardous production facility may develop a safety case, a document which describes that the facility has been designed and operated in a way to limit any risks of major accident. The Safety Law considers that in drafting the safety case, the relevant companies will be able to refer to specific safety arrangements and safety analyses as confirmation of having certain safety measures in place. To make these arrangements fully operational further changes will need to be introduced into relevant laws and regulations.

Companies that operate such production facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia of December 30, 2001, as amended (the **Labor Code**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Russian regulations require these companies to enter into contracts with professional emergency response units or create their own

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emergency response services in certain cases, conduct personnel trainings and drills, create systems to cope with and notify the authorities of accidents and maintain these systems in good working order. Effective from January 1, 2014, companies that operate industrial sites of hazard classes I and II must implement industrial safety management systems to prevent accidents and incidents at hazardous production facilities and develop certain emergency response plans.

Companies that operate production sites of hazard classes I and II and handle hazardous substances in quantities set by the law must also prepare declarations of industrial safety which summarize the risks associated with operating a particular production site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration as well as a state industrial safety review are required for the issuance of a license permitting the operation of a hazardous production facility.

Rostekhnadzor has broad authority in the field of control and management of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous production facility where the accident took place bears all costs of an investigation. Rostekhnadzor officials have the right to access production sites and may inspect documents to ensure a company s compliance with safety rules. Rostekhnadzor may suspend for up to 90 days or initiate a court decision to terminate operations of companies and/or impose administrative liability on officers of such companies.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Russian Antimonopoly Regulation

The Federal Law On Protection of Competition, dated July 26, 2006, as amended (the **Competition Law**), provides for a mandatory pre-approval by the FAS of the following actions:

other than in respect to financial organizations, such as banks, an acquisition by a person (or its group) of more than 25% of the voting shares of a Russian joint-stock company (or one-third of the interests in a Russian limited liability company), except upon incorporation, and the subsequent increase of these stakes to more than 50% of the total number of the voting shares and more than 75% of the voting shares (one-half and two-thirds of the interests in a Russian limited liability company), or acquisition by a person (or its group) of ownership or rights of use with respect to the core production assets and/or intangible assets of an entity which are located in Russia if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of a Russian entity or to exercise the powers of its executive body by a person (or its group), or an acquisition by a person (or its group) of more than 50% of the voting shares (interests) of a foreign entity, which has supplied goods, works and/or services to Russia in an amount exceeding 1 billion rubles in the preceding year, or other rights to determine the conditions of business activity of such entity or to exercise the powers of its executive body, if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group (excluding the asset value of the seller and its group, if as a result of the acquisition the seller and its group cease to determine the conditions of business activity of the target) exceeds 7 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or the total annual revenues of such acquirer and its group, and the target and its group for the preceding calendar year exceed 10 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or an acquirer, and/or a target, or any entity within the acquirer s group or a target s group are included in the Register of Entities Having a Market Share in Excess of 35% on a Particular Commodity Market (the **Monopoly Register**);

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- mergers and consolidations of entities, other than financial organizations, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds 7 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 10 billion rubles, or if one of these entities is included in the Monopoly Register; and

- founding of a business entity, if its charter capital is paid by the shares (or limited liability company interests) and/or the assets (other than cash) of another business entity (other than financial organization) or the newly founded business entity acquires shares (or limited liability company interests) and/or the assets (other than cash) of another business entity based on a transfer act or a separation balance sheet and rights in respect of such shares (or limited liability company interests) and/or assets (excluding monetary funds) as specified above, at the same time provided that the aggregate asset value of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets (other than cash) are contributed to the charter capital of the newly founded business entity exceeds 7 billion rubles, or total annual revenues of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets are contributed to the charter capital of the newly founded business entity for the preceding calendar year exceed 10 billion rubles, or if a business entity whose shares (or limited liability company interests) and/or assets (other than cash) are contributed to the charter capital of the newly founded business entity is included in the Monopoly Register.

The above requirements for a mandatory pre-approval by the FAS will not apply if the transactions are performed by members of the same group, if the information about such a group of persons was disclosed to the antimonopoly authority and there were no changes within one month prior to the date of the transaction within that group of persons. In such cases, the FAS must be notified of the transactions subsequently in accordance with Russian anti-monopoly legislation. Furthermore, the requirement for a mandatory approval of transactions described in the first bullet point above will not apply if the transactions are performed by members of the same group where a company and individual or an entity, if such an individual or an entity holds (either due to its participation in this company or based on the authorities received from other persons) more than 50% of the total amount of votes in the equity (share) capital of this company.

A transaction entered into in violation of the above requirements may be invalidated by a court decision pursuant to a claim brought by the FAS if the FAS proves to the court that the transaction leads or could lead to the limitation of competition in the relevant Russian market. The FAS may also issue binding orders to companies that have violated the applicable antimonopoly requirements and bring court claims seeking liquidation, split-up or spin-off of business entities if a violation of antimonopoly laws was committed by such business entities. In addition, a company may be subject to the administrative fine of an amount from 150 to 250 thousand rubles for the failure to file a FAS post-transactional notification and from 300 to 500 thousand rubles for the failure to file an application for FAS pre-approval of the transaction.

Under the Competition Law, a company with a dominant position in the relevant market is prohibited from misusing its dominant position. Specifically, such company is prohibited from:

- establishing and maintaining monopolistically high or monopolistically low prices of goods;

- withdrawing goods from circulation, if the result of such withdrawal is an increase in the price of goods;

imposing contractual terms upon a counterparty which are unprofitable for the counterparty or not related to with the subject matter of agreement (i.e., terms that are economically or technologically unjustified);

reducing or terminating, without economical or technological justification, production of goods if there is a demand for the goods or orders for their delivery have been placed and it is possible to produce them profitably;

- refusing or evading, without economical or technological justification, to enter into a contract with customers in cases when the production or delivery of the relevant goods is possible;
- establishing without economical, technological or other justification different prices for the same goods;
- establishing unjustifiably high or unjustifiably low price of a financial service by a financial organization;
- creating discriminatory conditions;
- creating barriers to entry into the market for the relevant goods or forcing other companies to leave the market;
- violating pricing procedures established by law; and
- manipulating prices in the wholesale and/or retail electricity (capacity) markets.

When a company is included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position in the relevant market, it may be subject to additional FAS oversight. In addition, in the event of breach of any terms of business conduct required by the FAS, the FAS may initiate proceedings to investigate a breach of antimonopoly laws. If a breach of the antimonopoly laws is identified, the FAS may initiate administrative proceedings which may result in the imposition of a fine calculated on the basis of the annual revenues received by the company in the market where such breach was committed. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sales of all goods, works and services in the market where such violation was committed, but not more than 2% of gross proceeds of sale of all goods, works and services for the year preceding the year of the violation. Russian legislation also provides for criminal liability of company managers for violations of certain provisions of antimonopoly legislation. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The same liability will apply to a company not formally included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position in the relevant market if it is proved that such company occupies a dominant position on the basis of review of various facts, information and documents.

The FAS has determined certain of our companies to have a dominant position in certain markets and these companies are subject to directive issued by the FAS which impose certain restrictions on their commercial activities. See Risk Factors Risks Relating to Our Business and Industry Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

The Strategic Industries Law

The Strategic Industries Law adopted on April 29, 2008 and subsequently amended in 2010, 2011 and 2014 regulates foreign investments in companies with strategic importance for the national defense and security of the Russian

Federation (**Strategic Companies**). The Strategic Industries Law provides an exhaustive list of strategic activities, engagement in which makes a company subject to restrictions. Among others, the list of such activities includes exploration and/or production of natural resources on subsoil plots of federal importance. Subsoil plots of federal importance include plots with deposits of uranium, diamonds, high-purity quartz ore, nickel, cobalt, niobium, lithium, beryllium, tantalum, yttrium-group rare-earth metals and platinoid metals. They also include deposits of oil, gas, vein gold and copper which are above certain size limits specified in the Subsoil Law, as well as subsoil plots of the internal sea, territorial sea and continental shelf; and subsoil plots, the use of which requires the use of land plots included in the category of national defense and security land. The Strategic Subsoil List was first officially published in *Rossiyskaya Gazeta* on March 5, 2009. Services rendered by

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business entities included into the register of natural monopolies pursuant to the Federal Law On Natural Monopolies, dated August 17, 1995, as amended, with certain exceptions, are also considered to constitute strategic activity. Furthermore, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be a strategic activity. The production and distribution of industrial explosives is also deemed to be activity of strategic importance for national defense and homeland security.

Investments resulting in a foreign investor or a group of entities obtaining control over a Strategic Company, or acquiring fixed assets of a Strategic Company representing 25% or more of its balance sheet value, require prior approval from state authorities. The procedure for issuing such consent will involve a special governmental commission on the control of foreign investments (the **Governmental Commission**), which was established by a government resolution dated July 6, 2008 as the body responsible for granting such consents, and the FAS, which is authorized to process applications for consent from foreign investors and to issue such consents based on the decisions of the Governmental Commission. **Control** for these purposes means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders (or limited liability company interest-holders) meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company or otherwise. Thus, generally, control will be deemed to exist if any foreign investor or a group of entities acquires more than 50% of the shares (or limited liability interests) of a Strategic Company, or if by virtue of a contract or ownership of securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company. However, there are special provisions for Strategic Companies involved in the exploration or extraction of natural resources on plots of federal importance (**Subsoil Strategic Companies**): a foreign investor or group of entities is considered to have control over a Subsoil Strategic Company when such foreign investor or group of entities holds directly or indirectly 25% or more of the voting shares of the Subsoil Strategic Company or holds the right to appoint its sole executive officer and/or 25% or more of its management board or has the unconditional right to elect 25% or more of its board of directors.

Furthermore, in case a foreign investor or its group of entities which is a holder of securities of a Strategic Company, Subsoil Strategic Company or other entity which exercises control over these companies becomes a direct or indirect holder of voting shares in amount which is considered to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to a change in the allocation of votes resulting from the procedures provided by Russian law (e.g. as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares or holders of preferred shares becoming entitled to vote at a general shareholders meeting in cases provided by Russian law), such shareholders will have to apply for state approval of their control within three months of receiving such control. If the Governmental Commission refuses to grant the approval the shareholders shall sell the relevant part of their respective shares or participatory interest, and if they do not comply with this requirement, a Russian court can deprive such foreign investor or its group of entities of the voting rights in such Strategic Company upon a claim of the competent authority. In such cases, the shares of the foreign investor are not counted for the purposes of establishing a quorum and reaching the required voting threshold at the general shareholders meeting of the Strategic Company.

Any transfers of a stake, or certain rights, in a Strategic Company or in a Subsoil Strategic Company to foreign investors that are (i) companies controlled by the Russian Federation, the constituent entity of the Russian Federation or (ii) companies controlled by Russian nationals, provided that such Russian nationals are Russian tax residents and do not have dual nationality, will not require prior approval from the state authorities.

If a foreign investor or its group of entities obtains control over a Strategic Company in violation of the Strategic Industries Law, the relevant transaction is void, and in certain cases a Russian court can deprive such foreign investor or group of entities of the voting rights in such Strategic Company upon a claim by the competent authority. In addition, resolutions of the general shareholders meetings or other management bodies

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of a Strategic Company adopted after a foreign investor or group of entities obtained control over the Strategic Company in violation of the Strategic Industries Law, as well as transactions entered into by the Strategic Company after obtaining such control, may be held invalid by a court upon a claim by the competent authority. See Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

Employment and Labor Regulations in Russia

Labor matters in Russia are governed primarily by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by federal laws, such as the Law On Employment in the Russian Federation, dated April 19, 1991, as amended, and the Law On Compulsory Social Insurance Against Industrial Accidents and Occupational Diseases, dated July 24, 1998, as amended; legal acts of executive authorities; and local government acts related to labor issues.

Employment contracts

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labor legislation generally disfavors fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labor relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal law. In some cases it is also possible to enter into an employment contract for the employee to perform specified tasks. All terms and conditions of employment contracts are regulated by the Labor Code.

Under Russian law, employment may be terminated by mutual agreement between the employer and the employee at the end of the term of a fixed-term employment contract or on the grounds set out in the Labor Code as described below. An employee has the right to terminate his or her employment contract with a minimum of two weeks notice (or one month s notice for a company s chief executive officer), unless the employment contract is terminated before the notice period ends by mutual agreement between employer and employee.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code, including, *inter alia*:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position s requirements due to incompetence, as confirmed by the results of an attestation;
- repeated failure of the employee to fulfill his or her work duties without valid reason, provided that the employee has been disciplined previously;
- entering the workplace under the influence of alcohol, narcotics or other intoxicating substances;

a single gross breach by an employee of his or her work duties, including truancy;

disclosure of state secrets or other confidential information, which an employee has come to know during fulfillment of his professional duties;

embezzlement, willful damage or destruction of assets, and misappropriation as confirmed by a court decision or a decision by another competent governmental authority;

failure to comply with safety requirements in the workplace if such failure to comply caused injuries, casualties or catastrophe; and

provision by the employee of false documents upon entry into the employment contract.

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An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation and salary payments for a certain period of time, depending on the circumstances.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise and other events specified in the Labor Code, an employer cannot dismiss minors, pregnant women, mothers with a child under the age of three, single mothers with a child under the age of 14 or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

For employees working in hazardous or harmful conditions, the regular working week is decreased by four hours in accordance with government regulations. Some of our production employees qualify for this reduced working week.

Annual paid vacation leave under the law is 28 calendar days. Our employees who work in mines and pits or work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 42 business days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, employees who work in underground and open pit mines or do other work in potentially harmful conditions have the right to retire at an earlier age. The rules defining such early retirement ages are established by the Federal Law On Labor Pensions in the Russian Federation, dated December 17, 2001, as amended.

Salary

The minimum monthly salary in Russia, as established by federal law, is 5,965 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of employment.

Trade unions

Although Russian labor regulations have decreased the authority of trade unions compared with the past, they retain influence over employees and, as such, may affect the operations of large industrial companies in Russia, such as

Mechel. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

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The activities of trade unions are generally governed by the Federal Law On Trade Unions, Their Rights and Guarantees of Their Activity, dated January 12, 1996, as amended (the **Trade Union Law**). Other applicable legal acts include the Labor Code, which provides for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- organize and participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;

protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term, except where a company is liquidated or the employer is otherwise entitled to dismiss the employee; and

provision of necessary equipment, premises and vehicles by the employer for use by the trade union free of charge, if provided for by a collective contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration. Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific consequences for such violations are set out in Russian legislation.

Regulation of Russian Electricity Market

Industry background

The Russian utilities sector landscape has undergone dramatic changes within the past several years, since the introduction of electricity industry reform under Government Resolution On Restructuring of Electricity Industry of the Russian Federation No. 526 dated July 11, 2001. The monopoly RAO Unified Energy System of Russia OAO (the **RAO UES**) was liquidated and separated in to separate businesses: electricity and heat generation, transmission (high voltage trunk grid), distribution (medium- and low-voltage infrastructure) and supply (sale of electricity to customers).

The electricity generation sector is now principally comprised of six thermal wholesale generating companies (called **OGKs** based on the Russian acronym for Wholesale Generating Company), one hydro wholesale generating company (named RusHydro), 14 territorial generating companies (**TGKs**), RAO Eastern Energy Systems OAO, Inter RAO OAO, various nuclear generation complexes (owned and/or operated by the Rosenergoatom Concern OJSC), as well as a number of independent regional diversified electricity producers and suppliers (Irkutskenergo OAO, Bashkirenergo OAO, Tatenergo OAO, Novosibirskenergo OAO).

Pursuant to the Federal Law On Specific Features of the Functioning of the Electricity Industry during the Transitional Period and on Introduction of Amendments into Certain Laws of the Russian Federation and Abolishing Certain Laws of the Russian Federation in connection with the Adoption of the Federal Law On the Electricity Industry No. 36-FZ dated March 26, 2003, as amended (the **Transitional Period Law**), companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, through simultaneously owning, or using on any other legal basis, assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale.

Amendments to the Transitional Period Law adopted in December 2011 introduced an enforcement mechanism with respect to affiliated companies which do not comply with the law. Pursuant to the amendments to the Transitional Period Law, if these requirements are not met, the FAS is entitled to file an application seeking a court order for forced reorganization to separate the assets in case they are combined within one company, or, in case of they are combined among affiliated companies, for a forced sale at a public auction first, of assets owned and directly used in electricity generation and/or sale and second, if the sale of electricity generation and/or sale assets is not possible, of assets owned and directly used in electricity distribution.

Sales of electricity

The Russian electricity market consists of wholesale and retail electricity and capacity markets. The wholesale electricity and capacity market encompasses European territory of the Russian Federation, the Urals and Siberia and is divided into two pricing zones. The first pricing zone includes the European territory of the Russian Federation and the Urals and the second pricing zone includes Siberia. This market provides a framework for large-scale, often interregional, energy trades. The retail electricity market operates within all Russian regional territories and provides a framework for mid-scale and end-consumer energy trades. This market is regulated by the respective Regional Energy Committees (**RECs**).

Wholesale electricity market

The wholesale market is a system of contractual relationships between all of its participants linked together by the process of production, transmission, distribution, purchase and sale and consumption of electricity. This unified energy system encompasses six regional unified energy systems, which are the following: North-West, Central, Urals, Mid-Volga, South and Siberia.

The wholesale market participants mainly include:

- producers of electricity and capacity: generating companies (OGKs, TGKs and various other generators);
- electricity supply companies (energy traders) which have purchased electricity and capacity for further resale on wholesale and retail markets;
- purchasers of electricity and capacity: major power consumers and generating companies which at certain points in time may elect to purchase electricity to fulfill their supply obligations instead of generating their own; and
- grid companies (to cover electricity losses sustained in transmission and distribution of electricity).

The infrastructure of the wholesale market is operated by the Non-profit Partnership Market Council and the Trade System Administrator OAO which organize the trading; a system operator established by the former RAO UES in the form of an open joint-stock company (SO UES JSC); the Russian Grids JSC, which owns and operates the federal and regional transmission networks; and the Financial Settlement Center ZAO, which is a clearance and settlement organization for the wholesale electricity and capacity market.

Currently electricity is traded on the basis of the following trading mechanisms:

Regulated bilateral contracts

Regulated contracts are effectively take-or-pay obligations at regulated prices defined by the FTS for electricity and capacity volumes. The volumes of electricity to be traded by the generators under regulated contracts are set up by the FTS annually based on percentages of the volumes of electricity generated in the previous year. The volumes of electricity traded under regulated contracts have gradually declined for the wholesale market when it became fully liberalized in 2011. Starting from January 1, 2011, electricity is traded at non-regulated prices, except for electricity intended for supply to households.

A generator may provide the volumes of electricity it must sell under regulated contracts either through own generation or through the purchase of electricity on the spot market at market prices. Similarly, its customers receive electricity at regulated prices in the volumes agreed under the regulated contracts, regardless of their actual needs, and can freely trade the imbalance on the spot market at market prices (either by purchasing additional volumes, if needed, or selling the excess electricity volumes).

Non-regulated bilateral contracts

Electricity supply volumes which are not agreed upon under regulated contracts, as well as all new generation capacity commissioned after January 1, 2007, can be traded by participants of the wholesale market under non-regulated contracts, on the one-day-ahead spot market or on the balancing market. All terms of electricity supply under non-regulated contracts are subject to free negotiation between sellers and purchasers.

Retail electricity market

The retail market participants include consumers, power supply companies, guaranteeing suppliers, power grid companies and electricity producers which do not supply electricity to the wholesale market.

The retail electricity market operates on the following main principles: (1) end consumers are free to choose between sales companies; (2) end consumers purchase at free prices set on the market, except for contracts with guaranteeing suppliers ; and (3) guaranteeing suppliers cannot refuse to enter into a contract with an end consumer.

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Guaranteeing suppliers sell electricity under prices that take account of: (1) the prices on the wholesale electricity market; (2) the sales premium of the particular guaranteeing supplier set by respective regional authorities; and (3) the prices for electricity transmission and distribution through electricity networks.

Heat market

Heat markets are regional retail markets and heat prices are regulated and set within the general guidelines provided by the FTS and by regional authorities. Minimum and maximum prices for heat energy traded on the retail markets are set by the FTS separately for each administrative region of Russia for a period of at least one year. Regional authorities establish the prices for relevant territories within the range set by the FTS and subject to the types and prices of fuel used to produce the heat and the volumes of heat purchased on the relevant territory.

Our Southern Kuzbass Power Plant delivers heat energy (in the form of hot water) at regulated prices to residential and commercial customers in the cities of Kaltan, Osinniki and Mezhdurechensk. Mechel Energo delivers heat energy (in the form of hot water and steam) at regulated prices to residential and commercial customers in the cities of Vidnoye, Chelyabinsk, Chebarkul, Beloretsk and Izhevsk.

E.U. REACH

On June 1, 2007, the European Union enacted regulations on registration, evaluation, authorization and restrictions of use of chemicals, known as REACH. The purpose of REACH is to ensure a high level of protection of human health and the environment, including the promotion of alternative methods of assessment of hazards of chemical substances.

REACH requires foreign manufacturers importing their chemical substances into the European Union, as well as E.U. manufacturers producing such substances in quantities of one tonne or more per year, to register these substances with the ECHA and provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. To comply with REACH requirements, we have created dedicated internal working groups, procured external consultants advice and budgeted for REACH procedures expenses. Prior to December 1, 2008, we pre-registered with the ECHA substantially all of the substances that we intended to export to or produce in the European Union. As a next step, we successfully registered with the ECHA the substances that we export to or produce in the European Union in an amount over 1,000 tonnes per year, and which are subject to REACH registration, namely: ferroalloys, coke-chemicals and pig iron exported to the European Union. This registration was completed prior to December 1, 2010 in compliance with the REACH implementation schedule.

Item 4A. ***Unresolved Staff Comments***

None.

Item 5. ***Operating and Financial Review and Prospects***

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other information in this document. This Item 5 contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including the risks described in Item 3. Key Information Risk Factors and under the caption Cautionary Note Regarding Forward-Looking Statements.

In this Item 5, the term domestic describes sales by a subsidiary within the country where its operations are located. The term export describes cross-border sales by a subsidiary regardless of its location. See note 25 to the consolidated financial statements.

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History of Incorporation

Mechel OAO was incorporated on March 19, 2003, as a joint-stock company holding shares and interests in the charter capitals of various mining and steel companies owned by Igor Zyuzin, Vladimir Iorich and companies controlled by them. These individuals acted in concert from 1995 until December 2006 pursuant to an agreement which required them to vote in the same way. During the period from March through December 2006, Mr. Iorich disposed of his entire interest in Mechel OAO to Mr. Zyuzin, and the agreement terminated on December 21, 2006.

Business Structure

Segments

We have organized our businesses into three segments (see note 25 to the consolidated financial statements):

- the mining segment, comprising the production and sale of coal (metallurgical and steam), coke and chemical products, iron ore and limestone, which supplies raw materials to our steel and power segments and also sells substantial amounts of raw materials to third parties, and includes logistical assets, such as our seaports on the Sea of Japan and on the Sea of Azov and our railway transportation assets;

- the steel segment, comprising the production and sale of semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat products, high value-added metal products, including wire products, forgings and stampings, as well as ferrosilicon, and our river port on the Kama River, a tributary of the Volga River; and

- the power segment, comprising power generating facilities, which supply electricity and heat energy to our mining and steel segments and also sells a portion of electricity and heat energy to third parties.

The table below sets forth by segments our key mining, steel and power subsidiaries, presented in chronological order by date of acquisition.

Name	Location of Assets	Product/Business	Date Control Acquired	Voting Interest[(1)] %
Mining Segment				
Southern Kuzbass Coal Company	Russia	Coking coal, steam coal, anthracite and PCI	January 1999	96.6%
Tomusinsky Open Pit	Russia	Coking coal, steam coal	January 1999	64.3%
Korshunov Mining Plant	Russia	Iron ore concentrate	October 2003	90.0%
Port Posiet	Russia	Seaport: coal warehousing and transshipment	February 2004	97.1%
Mechel Coke	Russia	Coke and chemical products	June 2006	100.0%
Moscow Coke and Gas Plant	Russia	Coke and chemical products	October 2006	99.5%
Yakutugol	Russia	Coking coal, steam coal	October 2007	100.0%
Port Temryuk	Russia		March 2008	100.0%

		Seaport: coal and metal transshipment		
Mechel Bluestone Inc.[(2)]	United States	Coking coal, steam coal	May 2009	100.0%
Elgaugol	Russia	Coking coal, steam coal	August 2013	99.9%
Steel Segment				
Chelyabinsk Metallurgical Plant	Russia	Semi-finished steel products, carbon and stainless long and flat steel products	December 2001	94.2%
Southern Urals Nickel Plant[(2)]	Russia	Ferronickel	December 2001	84.1%
Vyartsilya Metal Products Plant	Russia	Wire products	May 2002	93.3%
Beloretsk Metallurgical Plant	Russia	Long steel products, wire products	June 2002	91.5%

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Name	Location of Assets	Product/Business	Date Control Acquired	Voting Interest[1] %
Urals Stampings Plant	Russia	Stampings and forgings	April 2003	93.8%
Mechel Nemunas	Lithuania	Wire products	October 2003	100.0%
Izhstal	Russia	Carbon and special steel long products and wire products	May 2004	90.0%
Port Kambarka	Russia	River port	April 2005	90.4%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	August 2007	100.0%
Donetsk Electrometallurgical Plant	Ukraine	Semi-finished steel products and rolled products	December 2011	100.0%
Power Segment				
Southern Kuzbass Power Plant	Russia	Electricity generation	April 2007	98.3%
Kuzbass Power Sales Company	Russia	Electricity distribution	June 2007	72.1%

(1) The percentages provided in this table are as of December 31, 2014. Some of our Russian subsidiaries have preferred shares outstanding that have voting rights commensurate with common shares if dividends on those shares have not been paid. We have calculated voting interests by including these preferred shares for subsidiaries where dividends have not been paid.

(2) The results of operations of the entity are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Intersegment sales

We are an integrated group with operations organized into mining, steel and power segments. Our group companies supply materials to other companies in the same reporting segment or different reporting segments. For example, for the year ended December 31, 2014:

The mining segment supplied approximately 31% of the steel segment s iron ore concentrate requirements, 100% of the steel segment s coke requirements and 93% of the power segment s coal requirements;

The steel segment supplies wires, ropes, wire products and other metal products to the mining segment for use in its day-to-day operations; and

The power segment supplied approximately 26% of our group s overall electricity requirements.

The prices at which we record these transfers are based on market prices, and these transactions are eliminated as intercompany transactions for the purposes of our consolidated financial statements. For the period-on-period discussion of the results of operations by segments, such transfers are included in segment revenues and cost of goods sold.

Recent acquisitions and disposals

Set out below are our key acquisitions and disposals during 2012-2014. For more detail see note 4 to the consolidated financial statements. See also Item 3. Key Information Recent Developments Disposal of Bluestone for a discussion of the disposal of Bluestone companies, which closed in February 2015. The financial and sales information for the periods presented herein may not be directly comparable from period to period due to these acquisitions and disposals.

Cognor Stahlhandel. Cognor Stahlhandel is a distributor of steel products in Central and Eastern Europe. We acquired a 100% stake of Cognor Stahlhandel in September 2012 for $29.1 million in connection with the enforcement of collateral pledged under the Estar Loan Agreement. Prior to its acquisition, Cognor Stahlhandel was a related metallurgical plant. In January 2013, Cognor Stahlhandel GmbH was renamed to Mechel Service Stahlhandel Austria GmbH.

Lomprom Rostov. Lomprom Rostov is a scrap collecting and processing company located in the Rostov region. We acquired 100% of Lomprom Rostov in November 2012 for $0.1 million in connection with the enforcement of collateral pledged under the Estar Loan Agreement. Prior to its acquisition, Lomprom Rostov was a related metallurgical plant. We disposed of 100% of Lomprom Rostov in July 2013 for $0.5 million. The results of operations of Lomprom Rostov are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Port Vanino. On December 7, 2012, our subsidiary Mecheltrans won an auction to acquire 74,195 common shares (73.33% of the total common shares or 55% of the total shares) of Vanino Sea Trade Port OAO (**Port Vanino**) for the total consideration of 15.5 billion rubles (approximately $501.4 million as of the auction date). In January 2013, the shares were transferred to Mecheltrans. In January 2013, Mecheltrans further sold 72,780 of the acquired shares to several foreign investors and related party. In addition, in January 2013, Mecheltrans acquired 21,892 common shares (21.64% of the total common shares or 16.23% of the total shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino from a minority shareholder. The aggregate consideration for the preferred shares was 275 million rubles (approximately $9.2 million as of the date of the agreement) and was fully paid. The aggregate consideration for the common shares was 4.77 billion rubles (approximately $158.8 million as of the date of the agreement) and was paid in October 2013. In October 2013, Mecheltrans sold 21,892 common shares (21.64% of the total common shares or 16.23% of the total shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino to a third party foreign investor. The aggregate consideration for the shares was 5.04 billion rubles (approximately $157.8 million as of the date of the agreement) and was fully paid. By the end of December 2013, Mecheltrans sold the rest of its stake in Port Vanino, and presently, Mecheltrans has no shares of Port Vanino. Port Vanino is the largest seaport in Khabarovsk Krai, located in the Tatar Strait. Its infrastructure comprises sixteen berths, open and closed storehouses, cranes, cargo-handling equipment and other port facilities.

Southern Urals Nickel Plant. In December 2012, we suspended operations at Southern Urals Nickel Plant, which mined nickel ore and produced ferronickel. In July 2013, we made a decision to close the plant. The results of operations of Southern Urals Nickel Plant are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Romanian steel companies. In February 2013, we disposed of our steel companies in Romania for an aggregate consideration of 230 Romanian lei in cash (approximately $100 as of the closing date of the transaction). The disposed of companies consisted of 100% of shares of Ductil Steel S.A., 86.6% of shares of Mechel Targoviste S.A., 86.6% of shares of Mechel Campia Turzii S.A., 100% of shares of Mechel East Europe Metallurgical Division S.R.L. and 100% of shares of Donau Commodities S.R.L., which held 90.9% of shares of Laminorul S.A. The disposal was in accordance with our revised strategy aimed at focusing on our key production lines and disposal of non-core businesses.

Toplofikatsia Rousse. In July 2013, we disposed of 100% of shares of Toplofikatsia Rousse, a power plant located on the bank of the Danube River in close proximity to the harbor of Rousse, Bulgaria. The consideration was $37.8 million. The results of operations of Toplofikatsia Rousse are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Invicta Merchant Bar. In July 2013, we disposed of 100% of shares of Invicta Merchant Bar Ltd., a steel plant located in Queenborough, the United Kingdom. The total consideration was $1.7 million. The results of operations of Invicta Merchant Bar are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Tikhvin Ferroalloy Plant and Voskhod Mining Plant. In December 2013, we disposed of 100% of shares in Tikhvin Ferroalloy Plant and Voskhod Mining Plant for a total cash consideration of $425 million. We had acquired these assets in 2008 as part of the Oriel Resources acquisition. Tikhvin Ferroalloy Plant is a ferrochrome producer located near St. Petersburg in Russia. Voskhod Mining Plant includes a chrome ore mine and a concentration plant located in Kazakhstan. The subsoil license for the Voskhod chrome ore deposit was sold together with Voskhod Mining Plant. The results of operations of these companies are included in the consolidated financial statements as discontinued operations. See note 4(c) to the consolidated financial statements.

Factors Affecting Our Results of Operations and Financial Condition

Cyclical nature of business and impact of macroeconomic factors

Our mining business sells significant amounts of coal and iron ore to third parties and our revenues depend significantly on these sales. Cyclical and other changes in the world market prices for these products affect the results of our mining operations. The changes in these prices result from factors which are beyond our control, such as market supply and demand. The global coal and iron ore supply and demand balance is strongly influenced by interdependent global economic and industrial demand cycles, as well as supply chain-related constraints such as shipping capacity, availability of rolling stock, transportation bottlenecks, production disruptions and natural disasters. Prices for the products of our mining business have varied significantly in the past and could vary significantly in the future. See Price trends for products below. See also Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects.

The steel industry is highly cyclical in nature because the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which we sell our products, as well as in the global economy. The prices of our steel products are influenced by many factors, including demand, worldwide production capacity, capacity utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices also typically follow trends in raw materials prices and increases in market prices for steel may lag behind increases in production costs, including raw materials.

Demand for steel, particularly long steel products in which we believe we are one of the most competitive producers in the Russian market, is closely tied to the construction industry in the markets in which we sell our products. The construction business in Russia, the principal market for our products, was severely impacted by the global financial crisis and the sharp economic slowdown in Russia. As a result of the critical role of steel in infrastructural and overall economic development, the steel industry tends to track macroeconomic factors such as GDP and industrial output.

Global real GDP grew by 2.4% in 2012, 2.5% in 2013 and 2.6% in 2014, according to the World Bank. According to Rosstat, Russia recorded GDP growth of 3.4% in 2012, 1.3% in 2013 and 0.6% in 2014. Although the beginning of 2012 demonstrated some optimism in our key markets, debt problems in Europe and slowing growth in China in the second half of 2012 resulted in weak demand and low prices. These trends continued through 2013. In 2014, world markets continued their slowdown amid slowing economic growth in China, the European debt crisis and geopolitical tensions and it is expected that in 2015 these trends will continue to have an adverse impact on world markets for our products. Prices for our products fluctuated depending on the level of demand in key consuming industries and supply and demand balance in our key markets. See Price trends for products.

Trade and competition

Mining products and many types of steel products are considered commodities and treated as fungible in the world markets. As such, we compete with steel producers and mining companies with operations in different countries. The main competitive advantages that steel producers can secure are based on quality and production costs. Generally, steel producers in economically developed regions compete primarily based on quality of steel, while we and other steel producers in developing countries compete in the international market based primarily on price. With respect to our mining products, such as coal and iron ore, quality, production costs and transportation capabilities are key areas where companies seek a competitive advantage.

We benefit from import tariffs that Russia has in place for certain steel products. See Risk Factors Risks Relating to Our Business and Industry We benefit from Russia s tariffs and duties on imported steel, many of which have been reduced upon Russia s WTO membership and may be eliminated in the future.

Consolidation trends in the steel and mining industries

The global financial crisis sharply slowed the pace of consolidation in the steel industry. Despite demand growth in 2012, 2013 and 2014, steel-making capacity still exceeds steel demand. There is now significant over-capacity in the global steel sector which is putting pressure on operators profitability. Future potential consolidation in the steel industry should enable steel producers to maintain more consistent performance through cycles in the steel industry by achieving greater efficiency and economies of scale.

The mining industry has been severely impacted by the decline in coal prices since the end of 2011. Prices have fallen by nearly three times in 2011-2014 while production decline has lagged. Profitability of coal producers has declined. Currently, major mining companies are scaling back acquisitions and looking to divest non-core and underperforming assets, some of which were acquired just several years ago. Diversified mining companies have corrected their strategy to focus on profitable operations and reduce their exposure to coal.

We, along with other Russian steel producers, tend to focus on vertical integration which ensures access to a stable supply of raw materials, particularly coking coal and iron ore. Our vertical integration helps us to better manage the effects of raw materials supply constraints and also provides us with an opportunity to capture higher margins in sales of our mining segment products to third parties.

Price trends for products

Coking coal and steam coal

In the first quarter of 2012, the contract price for premium hard coking coal was set at $235 per tonne, while spot prices declined from $219 per tonne (FOB Australia) in January to $210 per tonne (FOB Australia) in March due to sluggish demand, according to CRU. As a result, the contract price for the second quarter of 2012 was reduced to $210 per tonne. Nevertheless, industrial actions at BMA operated mines led to an increase in spot prices to $224 per tonne in June, and the contract price for third quarter was settled at $225 per tonne, according to CRU. In the third quarter of 2012, the spot market for hard coking coal became oversupplied and the price declined sharply to $140 per tonne (FOB Australia) in September. As a result, the contract price for the last quarter of 2012 was set at $170 per tonne, according to CRU. The supply-side has been forced to react to significantly lower prices and output reductions occurring in China, the United States and Australia. Furthermore, demand strengthened and spot prices increased to $157 per tonne (FOB Australia) in December 2012, according to CRU. In 2013, metallurgical coal market has been facing significant challenges. According to CRU, in the first quarter of 2013, contract prices fell to $165 (FOB Australia), and spot prices rose in January-February to $173 per tonne (FOB Australia) due to robust import demand and restocking activity in China. Upward momentum of spot prices led contract prices to rise in the second quarter to $172 per tonne (FOB Australia), according to CRU. Since March spot prices began to fall and declined to $131 per tonne in July due to Chinese import demand shrunk. At the same time, seaborne availability has bounced higher and the supply and demand balance has loosened. In the third quarter of 2013, the contract price was set at $145 per tonne while spot prices rose in August and September to $152 per tonne due to improved buying activity from mills and traders in both Chinese and non-Chinese markets and production cuts in the United States, according to CRU. Higher spot prices allowed producers to increase contract price in the fourth quarter to $152 per tonne (FOB Australia). In October oversupply in the international market continued and spot prices declined from $147 per tonne in

October to $135 per tonne (FOB Australia) in December, according to CRU. Throughout 2014, the price for metallurgical coal continued to decline driven by lower demand from Chinese consumers, as well as an increase in low-cost supply from the Australian coking coal producers. As a result, contract prices fell from $143 per tonne (FOB Australia) in the first quarter of 2014 to $119 per tonne (FOB Australia) in the fourth quarter of 2014, according to CRU. The average contract price in 2014 was $125 per tonne, 21% below the average price in 2013. The average spot price in 2014 was $114 per tonne (FOB Australia), 23% below the average price in 2013, according to CRU.

During the first half of 2012, steam coal spot prices declined from $106 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in January to $87 per tonne in June, according to Platts. In the second half of 2012, spot prices for steam coal were generally stable fluctuating around $90 per tonne, according to Platts. In the first half of 2013, spot prices for steam coal declined from $86 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in January to $75 per tonne in June, according to Platts, due to a global seaborne supply surplus as major producers continued to ramp up production. According to Platts, in the second half of the year steam coal spot prices began to rise from $75.5 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in July to $84 per tonne in December due to improving economic fundamentals in Europe and China and the supply cuts in Australia. At the beginning of 2014, the spot price for steam coal was $83 per tonne (CIF Amsterdam/Rotterdam/Antwerp); by the end of the year it dropped to $70 per tonne, according to Platts. The average price in 2014 was $75 per tonne (CIF Amsterdam/Rotterdam/Antwerp), 8% lower than the average price in 2013, according to Platts. Among the factors which have led to lower prices in the world market for steam coal are the decline in demand from the Chinese and European economies, as well as the growth in supply from Australian producers. The reduction of prices in the steam coal market was also due to a general decline in energy prices in 2014.

Iron ore

During the first half of 2012, iron ore spot prices adjusted upwards and were generally stable fluctuating around $139 per dry metric tonne (62% Fe, CFR China), according to CRU. In the third quarter of 2012, spot prices for iron ore fell to $106 per dry metric tonne (62% Fe, CFR China) in September due to weak steel market in China and intensified destocking of steel-making raw materials at mills. Tighter supplies, combined with an uptick in interest from China, triggered increases for iron ore prices to $132 per dry metric tonne (62% Fe, CFR China) in December 2012, according to CRU. At the beginning of 2013, iron ore spot prices rose and reached $158 per dry metric tonne (62% Fe, CFR China) in February, according to CRU. The price increase was supported by restocking activities as well as seaborne supply tightness. In March 2013, iron ore prices started to correct downwards. During the second quarter of 2013, there was a price decrease as steel demand remained weak with prices declining to $116 per dry metric tonne (62% Fe, CFR China) in June, according to CRU. In July-August prices rose to $137 per dry metric tonne (62% Fe, CFR China) due to Chinese government announcements in the third quarter of 2013 which boosted steel demand. The rest of the year spot prices were supported by strong demand from Chinese mills and fluctuated around $134 per dry metric tonne (62% Fe, CFR China), according to CRU. Average spot prices in 2013 were $136 per dry metric tonne (62% Fe, CFR China), up from $129 per dry metric tonne in 2012, according to CRU. During 2014, the iron ore spot price decreased from a high of $131 per tonne (62% Fe, CFR China) in January to a low of $68 per tonne in December, according to CRU. The average spot price in 2014 was $97 per tonne which was 29% lower than the average price in 2013, according to CRU. The price decrease was due to sharp increase in low-cost supply from the Australian and Brazilian producers.

Coke

Throughout 2012, Russian domestic prices for coke were decreasing due to sluggish demand and falling coking coal prices and reached 7,588 rubles per tonne (including VAT, FCA basis) in December, according to Metal-Courier. The export price for Chinese coke also declined from $370 per tonne (12.5% ash, FOB basis) in January to $265 per tonne

(12.5% ash, FOB basis) in December, according to CRU. In January 2013, the export price for Chinese coke corrected upwards to $290 per tonne (12.5% ash, FOB basis) but then started to decrease, because Chinese coke producers flooded the market with low cost material after the cancellation of the export duty, and reached $230 per tonne (12.5% ash, FOB basis) in July, according to CRU. The strengthening in coke prices in August-September to $245 per tonne (12.5% ash, FOB basis) has been purely cost-driven with demand playing no part in this upward trend. In the last quarter of 2013, the export price for Chinese coke shifted higher to $258 per tonne (12.5% ash, FOB basis), primarily due to the strength of the Chinese domestic coke market, according to CRU. Russian domestic price for coke was stable in the first four months of 2013 and constituted 7,573 rubles per tonne (including VAT, FCA basis) but then started to decline to 6,274 rubles per tonne (including VAT, FCA basis) in October, according to Metal-Courier. The main reasons for the price drop were falling coking coal prices, weak demand in the Russian market and increased competition from China in foreign markets. In November-December 2013, Russian domestic coke price saw a minor uptick to 6,382 rubles per tonne (including VAT, FCA basis) due to rising coke prices for exports, according to Metal-Courier. In 2014, world market prices for coke were under pressure due to negative trends in the global steel and raw materials market, which resulted in a decrease in prices from $255 per tonne (12.5% ash, FOB basis) at the beginning of the year to $184 per tonne (12.5% ash, FOB basis) at the end of the year, according to CRU. Nevertheless, domestic coke prices managed to stay at the level of 2013, namely 6,983 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. By the end of the year, however, domestic coke prices fluctuated around 7,600-8,800 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. The increase in domestic coke prices was due to an increase in demand from Ukrainian consumers and to devaluation of the ruble.

Steel

In 2012, the Russian domestic price for rebar declined to $707 (-6% year-on-year) per tonne and the export price for square billets declined to $564 (-11% year-on-year) per tonne in 2012, according to Metal-Courier. The next year prices continued to decline. Due to competition, the Russian domestic price for rebar declined to $602 (-15% year-on-year) per tonne and the export price for square billets declined to $509 (-10% year-on-year) per tonne as a result of decreased scrap prices and low demand in 2013, according to Metal-Courier. In 2014, the Russian domestic price for rebar declined to $528 (-12% year-on-year) per tonne as a result of increased competition and the export price for square billets declined to $481 (-6% year-on-year) per tonne, according to Metal-Courier.

Ferrosilicon

In the second quarter of 2012, ferrosilicon prices increased to $1,435 per tonne (75% Si, CIF Japan) in April and then began to fall due to slow demand and reached $1,330 per tonne (75% Si, CIF Japan) in November. By the end of the year, ferrosilicon prices grew to $1,378 per tonne (75% Si, CIF Japan) as electricity costs in China increased, according to TEX. Price dynamics in 2013 were the same as in 2012. The price peak was in March at $1,424 per tonne (75% Si, CIF Japan), according to TEX. By the end of the year prices dropped to $1,370 per tonne (75% Si, CIF Japan), according to TEX. In 2014, ferrosilicon prices decreased throughout the year. In January 2014, the average price level for Chinese ferrosilicon was $1,475 per tonne (75% Si, CIF Japan). By the end of the year, ferrosilicon prices fell to $1,341 per tonne (75% Si, CIF Japan), according to TEX.

Freight costs

During 2012-2014, ocean freight rates remained volatile, while generally declining in 2014. In 2014, the largest decrease in dry bulk sectors came from the Panamax sector, where the average time charter rate decreased from $9,500 per day in 2013 to $7,700 per day in 2014, a decrease of 19%. The average Capesize rate was $14,800 per day in 2014 compared to $16,800 per day in 2013. The average rate for Supramax vessels in 2014 was $10,300 per day compared to $9,800 per day in 2013. Following a modest increase in the Supramax rates (Baltic Supramax Index BSI) in the third quarter of 2014, the BSI amounted to approximately $11,000 per day at the start of the fourth quarter of

2014. Apart from the last two weeks of November, the BSI fell by 16% in total during the fourth quarter of 2014. The decrease in freight prices in 2014 was mainly due to a shortfall in tonnage demand, which, in turn, was largely driven by a substantial drop in Chinese coal, bauxite and nickel ore imports.

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Exchange rates

Our products are typically priced in rubles for Russian and the CIS sales and in U.S. dollars or euros for international sales. Our direct costs, including raw materials, labor and transportation costs are largely incurred in rubles and other local currencies, while other costs, such as interest expenses, are incurred in rubles, euros and U.S. dollars. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues.

Results of Operations

The following table sets forth our consolidated statement of income data for the years ended December 31, 2014, 2013 and 2012.

	Year Ended December 31,					
	2014		2013		2012	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In thousands of U.S. dollars, except for percentages)					
Revenue, net	6,405,767	100.0%	8,505,931	100.0%	10,753,513	100.0%
Cost of goods sold	(4,031,657)	(62.9)%	(5,845,752)	(68.7)%	(7,435,537)	(69.1)%
Gross profit	2,374,110	37.1%	2,660,179	31.3%	3,317,976	30.9%
Selling, distribution and operating expenses	(2,247,682)	(35.1)%	(3,316,936)	(39.0)%	(3,915,572)	(36.4)%
Operating income (loss)	126,428	2.0%	(656,757)	(7.7)%	(597,596)	(5.6)%
Other income and (expense), net	(3,196,290)	(49.9)%	(969,021)	(11.4)%	(438,463)	(4.1)%
Loss from continuing operations, before income tax and discontinued operations	(3,069,862)	(47.9)%	(1,625,778)	(19.1)%	(1,036,059)	(9.6)%
Income tax benefit (expense)	183,908	2.9%	(79,092)	(0.9)%	(242,601)	(2.3)%
Net loss from continuing operations	(2,885,954)	(45.1)%	(1,704,870)	(20.0)%	(1,278,660)	(11.9)%
Loss from discontinued operations, net of income tax	(1,473,780)	(23.0)%	(1,218,097)	(14.3)%	(386,225)	(3.6)%
Net loss	(4,359,734)	(68.1)%	(2,922,967)	(34.4)%	(1,664,885)	(15.5)%
Less: Net loss (income) attributable to non-controlling interests	24,308	0.4%	(5,047)	(0.1)%	317	0.0%
	(4,335,426)	(67.7)%	(2,928,014)	(34.4)%	(1,664,568)	(15.5)%

Net loss attributable to shareholders of Mechel OAO						
Less: Dividends on preferred shares	(124)	0.0%	(127)	0.0%	(79,056)	(0.7)%
Net loss attributable to common shareholders of Mechel OAO	(4,335,550)	(67.7)%	(2,928,141)	(34.4)%	(1,743,624)	(16.2)%

Year ended December 31, 2014 compared to year ended December 31, 2013

Net revenues

Consolidated revenues decreased by $2,100.1 million, or 24.7%, to $6,405.8 million in the year ended December 31, 2014 from $8,505.9 million in the year ended December 31, 2013.

The sales decrease was due to a decrease in sales prices across our major segments and a decrease in sales volumes in our mining and steel segments.

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The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

Net Revenues by Segment	Year Ended December 31, 2014	2013
	(In thousands of U.S. dollars, except percentages)	
Mining segment		
To third parties	2,087,047	2,619,262
To power segment	43,114	48,253
To steel segment	509,730	476,948
Total	2,639,891	3,144,463
Steel segment		
To third parties	3,643,797	5,132,100
To power segment	139,202	154,788
To mining segment	74,203	85,054
Total	3,857,202	5,371,942
Power segment		
To third parties	674,923	754,568
To steel segment	283,734	346,581
To mining segment	73,264	89,056
Total	1,031,922	1,190,205
Eliminations	1,123,248	1,200,679
Consolidated revenues	6,405,767	8,505,931
% from mining segment	32.6%	30.8%
% from steel segment	56.9%	60.3%
% from power segment	10.5%	8.9%

Mining segment

Our total mining segment sales decreased by $504.6 million, or 16%, to $2,639.9 million in the year ended December 31, 2014 from $3,144.5 million in the year ended December 31, 2013.

Coking coal concentrate sales to third parties decreased by $165.0 million, or 17.1%, to $801.5 million in the year ended December 31, 2014 from $966.5 million in the year ended December 31, 2013, as a result of a decrease in sales prices of $200.8 million that was partially offset by an increase in sales volumes of $35.8 million. In 2014, coking coal prices continued to decline. The annual average contract price on the international coal market was $125 per tonne (FOB Australia), or 12% below the average contract price in 2013. The average spot price in 2014 was $114 per tonne (FOB Australia), or 23% below the average spot price in 2013, according CRU. In 2014, the world market of coking coal was still oversupplied but the product surplus began to fall owing to both the closing of inefficient projects in Australia and withdrawal of the United States from the world coking coal market.

The volume of coking coal concentrate sold to third parties increased by 277 thousand tonnes, or 3.7%, to 7,777 thousand tonnes in the year ended December 31, 2014 from 7,500 thousand tonnes in the year ended December 31, 2013. The increase in sales volumes of coking coal in 2014 was mainly caused by increased sales from Southern Kuzbass Coal Company.

The volume of coking coal sold to third parties decreased at Yakutugol and increased at Southern Kuzbass Coal Company. Yakutugol s coking coal sales volumes decreased by 339 thousand tonnes, or 6%, to

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5,340 thousand tonnes in the year ended December 31, 2014 from 5,679 thousand tonnes in the year ended December 31, 2013. Southern Kuzbass Coal Company s coking coal sales volumes increased by 582 thousand tonnes, or 32%, to 2,403 thousand tonnes in the year ended December 31, 2014 from 1,821 thousand tonnes in the year ended December 31, 2013.

Coke sales to third parties increased by $8.2 million, or 3.8%, to $223.7 million in the year ended December 31, 2014 from $215.5 million in the year ended December 31, 2013, as a result of an increase in sales volumes of $49.9 million that was offset by a decrease in sales prices of $41.7 million. In 2014, world market prices for coke were under pressure due to negative trends in the global steel and raw materials market, which resulted in a decrease of prices from $225 per tonne (12.5% ash, FOB basis) at the beginning of the year to $184 per tonne (12.5% ash, FOB basis) at the end of the year. Coke sales volumes increased mainly in export markets due to an increase of demand from Ukrainian consumers where the local production of coke is suspended.

Coke supplied to the steel segment decreased by $51.1 million, or 13.4%, to $331.2 million in the year ended December 31, 2014 from $382.3 million in the year ended December 31, 2013. The decrease was due to a decrease in sales prices of $55.7 million that was partially offset by an increase in sales volumes of $4.6 million. Coke sales volumes from Mechel Coke to Chelyabinsk Metallurgical Plant increased by 23 thousand tonnes, or 1%, from 1,929 thousand tonnes in the year ended December 31, 2013 to 1,952 thousand tonnes in the year ended December 31, 2014; a decrease in sales prices is explained by the world price trends influence.

Chemical products sales to third parties decreased by $3.8 million, or 5.6%, to $63.9 million in the year ended December 31, 2014 from $67.7 million in the year ended December 31, 2013, mainly as a result of a decrease in sales prices. Sales prices decreased mainly due to the depreciation of the ruble, as domestic prices are denominated in rubles.

Anthracite and PCI sales to third parties decreased by $114.5 million, or 16.4%, to $582.0 million in the year ended December 31, 2014 from $696.5 million in the year ended December 31, 2013, as a result of a decrease in sales prices of $55.8 million and a decrease in sales volumes of $58.7 million. Throughout 2014, the demand and prices for metallurgical coal continued to decline driven by lower demand from Chinese consumers. As a result, contract prices fell from $143 per tonne (FOB Australia) in the first quarter of 2014 to $119 per tonne (FOB Australia) in the fourth quarter of 2014, according to CRU. Export sales volumes decreased due to lower demand from non-Chinese customers.

Steam coal sales to third parties increased by $39.6 million, or 52.6%, to $114.9 million in the year ended December 31, 2014 from $75.3 million in the year ended December 31, 2013, as a result of an increase in sales volumes of $43.5 million that was partially offset by a decrease in sales prices of $3.9 million. Overall, steam coal prices movement corresponded to the downward trend in coking coal prices during 2014. The average price in 2014 was $75 per tonne (CIF Amsterdam/Rotterdam/Antwerp), or 8% lower than the average price in 2013, according to Platts. The increase in sales volumes was mainly as a result of the supplies of steam coal to the Ukrainian market where there was a lack of local steam coal balances due to military operations.

Steam coal supplied to the power segment decreased by $2.5 million, or 11.2%, to $19.8 million in the year ended December 31, 2014 from $22.3 million in the year ended December 31, 2013, as a result of a decrease in sales prices of $4.3 million that was partially offset by an increase in sales volumes of $1.8 million. Sales of steam coal from Southern Kuzbass Coal Company to power segment companies increased by 70 thousand tonnes, or 8%, from 868 thousand tonnes in the year ended December 31, 2013 to 937 thousand tonnes in the year ended December 31, 2014 both due to increased electricity production caused by higher demand for power in the Kemerovo region and steam coal replacement of middlings.

Sales of iron ore to third parties decreased by $302.5 million, or 73.4%, to $109.4 million in the year ended December 31, 2014 from $411.9 million in the year ended December 31, 2013, as a result of a decrease in sales volumes of $281.3 million and in sales prices of $21.2 million. The annual average spot iron ore prices (63.5%

Fe dry, CIF) decreased by 52.6% from $135 per tonne in the year ended December 31, 2013 to $71 per tonne in the year ended December 31, 2014, according to CRU. Iron ore sales volumes decreased by 2,519 thousand tonnes, or 68.3%, from 3,688 thousand tonnes in the year ended December 31, 2013 to 1,169 thousand tonnes in the year ended December 31, 2014. On account of the considerable price decline, iron ore sales volumes decreased and export supplies were redirected to domestic group iron ore consumers.

Supplies of iron ore to the steel segment increased by $99.3 million, or 213.2%, to $145.9 million in the year ended December 31, 2014 from $46.6 million in the year ended December 31, 2013, as a result of a $152.4 million increase in sales volumes that was partially offset by a $53.1 million decrease in sales prices. Sales volumes increased due to the group strategy of redirection of iron ore sales volumes from third parties to group iron ore consumers. The share of iron ore consumed at Chelyabinsk Metallurgical Plant and produced by Korshunov Mining Plant increased from 8.2% in the year ended December 31, 2013 to 41.2% in the year ended December 31, 2014.

Excluding intersegment sales, export sales increased to 73.3% of mining segment sales in the year ended December 31, 2014, compared to 70.8% in the year ended December 31, 2013, due to increased demand for steam coal, middlings and coke from Ukrainian customers.

Steel segment

Our steel segment revenues decreased by $1,514.7 million, or 28.2%, to $3,857.2 million in the year ended December 31, 2014 from $5,371.9 million in the year ended December 31, 2013. The decrease in third-party sales volumes was due to the decline in purchases and resale of products from the related metallurgical plants in 2014 and the disposal of the Romanian subsidiaries in 2013. In 2014, steel segment sales in domestic and export markets showed different trends: demand in our export market was soft due to unstable economic and political conditions, while demand in our domestic market was relatively strong. Consumption of steel products in Russia remained at the level of 2013 and amounted to 45.7 million tonnes, according to Metal Expert.

Semi-finished products sales decreased by $365.5 million, or 82.3%, to $78.4 million in the year ended December 31, 2014 from $443.9 million in the year ended December 31, 2013, as a result of a decrease of $10.8 million in sales prices and a decrease of $354.7 million in sales volumes. Sales prices decreased due to a decrease in the world prices for billets: the average price for square billet (FOB Black Sea) decreased by 5.5% to $481 per tonne in the year ended December 31, 2014 from $509 per tonne in the year ended December 31, 2013, according to Metal Expert. The decrease in third-party sales volumes was due to the increase in consumption within our steel segment and to the decrease in sales volumes of semi-finished products purchased from the related metallurgical plants.

Other long products sales decreased by $151.3 million, or 17.9%, to $694.5 million in the year ended December 31, 2014 from $845.8 million in the year ended December 31, 2013, as a result of a decrease of $62.9 million in sales prices and a decrease of $88.4 million in sales volumes. The decrease in sales prices was mainly driven by the decrease in the prices of steel-making raw materials (iron ore, coking coal, etc.) as well as by the decrease in world demand. Sales volumes decreased due to the decrease in sales volumes of products purchased from the related metallurgical plants and the disposal of the Romanian subsidiaries.

Other flat products sales decreased by $100.5 million, or 25.7%, to $291.3 million in the year ended December 31, 2014 from $391.8 million in the year ended December 31, 2013, as a result of a decrease of $3.3 million in sales prices and a decrease of $97.2 million in sales volumes. The decrease in sales prices was driven by a decrease in domestic and export prices during 2014: annual average price for hot-rolled coil (Russia exports, FOB Black Sea) decreased by 3.5% to $530 per tonne in the year ended December 31, 2014 from $549 per tonne in the year ended December 31, 2013, according to Metal Expert. The sales volume decreased due to the reduction of sales volume of other flat products purchased from the related metallurgical plants as well as the partial closure of our storage facilities in Europe.

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Wire sales decreased by $83.8 million, or 17.5%, to $395.6 million in the year ended December 31, 2014 from $479.4 million in the year ended December 31, 2013, as a result of a decrease of $67.0 million in sales prices and a decrease of $16.8 million in sales volumes. The decrease in sales prices was driven by the decrease in the prices of wire rod used as the main input for wire production, as well as by the decrease in world demand. Sales volumes decreased due to the weakened demand in Europe.

Rebar sales decreased by $392.4 million, or 27.3%, to $1,047.5 million in the year ended December 31, 2014 from $1,439.8 million in the year ended December 31, 2013, as a result of a decrease of $103.8 million in sales prices and a decrease of $288.6 million in sales volumes. In 2014, the Russian domestic price and prices in the CIS region for rebar declined due to ruble depreciation. Sales volumes decreased due to the disposal of the Romanian subsidiaries and the revised strategy to focus on sales of key products by our European trading subsidiaries.

Steel pipes sales decreased by $92.5 million, or 50.7%, to $89.9 million in the year ended December 31, 2014 from $182.4 million in the year ended December 31, 2013, as a result of a decrease of $8.6 million in sales prices and a decrease of $83.9 million in sales volumes. The sales volume decreased due to reduction of sales volume of products purchased from the related metallurgical plants. The price decreased due to the depreciation of the ruble against the U.S. dollar.

Pig iron sales increased by $13.2 million, or 19.1%, to $82.3 million in the year ended December 31, 2014 from $69.1 million in the year ended December 31, 2013, as a result of an increase of $16.2 million in sales volumes, which was partially offset by a decrease of $3.0 million in sales prices. The increase in sales volumes was due to the increase of export prices and demand in the European market.

Stampings sales decreased by $53.3 million, or 21.3%, to $196.9 million in the year ended December 31, 2014 from $250.2 million in the year ended December 31, 2013, as a result of a decrease of $8.9 million in sales prices and a decrease of $44.4 million in sales volumes. The decrease in sales prices was driven by the decrease in domestic prices during 2014 as a result of weakening demand. The decrease in sales volumes was due to lower demand from the key consuming industries (engineering and transport industries).

Ferrosilicon sales decreased by $5.8 million, or 7.5%, to $71.2 million in the year ended December 31, 2014 from $77.0 million in the year ended December 31, 2013, as a result of a decrease of $4.8 million in sales volumes and a decrease of $1.0 million in sales prices. The decrease in sales volumes was due to the temporary suspension of one of the furnaces at Bratsk Ferroalloy Plant.

Sales of non-core products and services decreased by $69.6 million, or 31.4%, to $152.3 million in the year ended December 31, 2014 from $221.9 million in the year ended December 31, 2013, due to the decrease in scrap metal sales and services to the related metallurgical plants.

Excluding intersegment sales, export sales were 17.6% of steel segment sales in the year ended December 31, 2014, compared to 19.1% in the year ended December 31, 2013. The proportion of our export sales decreased due to the weakening demand in the European markets and the reduction of export sales in Middle East and Asia by 78.8% and 65.1%, respectively, as a result of the smaller purchases from the related metallurgical plants in 2014.

Power segment

Our power segment revenues decreased by $158.3 million, or 13.3%, to $1,031.9 million in the year ended December 31, 2014 from $1,190.2 million in the year ended December 31, 2013.

Electricity sales to third parties decreased by $53.2 million, or 7.9%, to $619.9 million in the year ended December 31, 2014 from $673.1 million in the year ended December 31, 2013, as a result of the depreciation of

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the ruble relative to the U.S. dollar. Electricity sales to third parties in ruble terms increased by 10% as a result of an increase in sales prices, due, in turn, to further liberalization of sales prices in the Russian electricity market.

Other revenue, which consists mostly of heat energy, decreased by $26.4 million, or 32.4%, to $55.1 million in the year ended December 31, 2014 from $81.5 million in the year ended December 31, 2013, due to the depreciation of the ruble relative to the U.S. dollar and the disposal of ZMZ-Energo in December 2013.

Intersegment sales decreased by $78.6 million, or 18.0%, to $357.0 million in the year ended December 31, 2014 from $435.6 million in the year ended December 31, 2013, mainly as a result of the depreciation of the ruble against the U.S. dollar.

Cost of goods sold and gross margin

The consolidated cost of goods sold was 62.9% of consolidated revenues in the year ended December 31, 2014, as compared to 68.7% of consolidated revenues in the year ended December 31, 2013, resulting in an increase in consolidated gross margin to 37.1% in the year ended December 31, 2014 from 31.3% for the year ended December 31, 2013. Cost of goods sold primarily consists of costs relating to raw materials (including products purchased for resale), direct payroll, depreciation and energy. The table below sets forth cost of goods sold and gross margin by segment for the years ended December 31, 2014 and 2013, including as a percentage of segment revenues.

Cost of Goods Sold and Gross Margin by Segment	Year Ended December 31, 2014 Amount	% of Segment Revenues	Year Ended December 31, 2013 Amount	% of Segment Revenues
	(In thousands of U.S. dollars, except for percentages)			
Mining segment				
Cost of goods sold	1,346,813	51.0%	1,627,622	51.8%
Gross margin	1,293,078	49.0%	1,516,841	48.2%
Steel segment				
Cost of goods sold	3,057,022	79.3%	4,531,438	84.4%
Gross margin	800,180	20.7%	840,504	15.6%
Power segment				
Cost of goods sold	763,677	74.0%	884,423	74.3%
Gross margin	268,244	26.0%	305,783	25.7%

Mining segment

Mining segment cost of goods sold decreased by $280.8 million, or 17.3%, to $1,346.8 million in the year ended December 31, 2014 from $1,627.6 million in the year ended December 31, 2013. The gross margin percentage remained stable at the level of 49% in the year ended December 31, 2014 compared to 48.2% in the year ended December 31, 2013.

Coal production cash costs per tonne (see Cash Costs per Tonne Measure) at Southern Kuzbass Coal Company decreased by $5.7 per tonne, or 15.3%, from $37.4 in the year ended December 31, 2013 to $31.7 in the year ended

December 31, 2014, mainly due to the depreciation of the ruble as all production costs are ruble-denominated.

Production cash costs of coal at Yakutugol decreased by $8.1 per tonne, or 24.2%, from $33.5 in the year ended December 31, 2013 to $25.4 in the year ended December 31, 2014, mainly due to the depreciation of the ruble as all production costs are ruble-denominated.

Coke production cash costs decreased by 18.3% at Moscow Coke and Gas Plant and by 22.7% at Mechel Coke following the decrease in coking coal concentrate purchase prices and the depreciation of the ruble.

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Production cash costs of iron ore decreased by 4.2% due to the ruble depreciation that was partially offset by a higher share of fixed costs per tonne, resulting from a 26.8% decline in iron ore extraction in 2014 compared to 2013.

Steel segment

Steel segment cost of goods sold decreased by $1,474.4 million, or 32.5%, to $3,057.0 million in the year ended December 31, 2014 from $4,531.4 million in the year ended December 31, 2013. Steel segment cost of goods sold was 79.3% of the segment s revenues in the year ended December 31, 2014, as compared to 84.4% in the year ended December 31, 2013. The increase in gross margin from 15.6% to 20.7% is due to the increase in our share of high value-added products as well as the reduction in purchase prices on the main raw materials and the weakening of the ruble against the U.S. dollar.

Power segment

Power segment cost of goods sold decreased by $120.7 million, or 13.6%, to $763.7 million in the year ended December 31, 2014 from $884.4 million in the year ended December 31, 2013. The power segment gross margin percentage increased to 26.0% in the year ended December 31, 2014 from 25.7% in the year ended December 31, 2013.

Cash Costs per Tonne Measure

In this document, we present cash costs per tonne for coal, coke and iron ore production for each significant production facility of our mining segment. Cash costs per tonne is a performance indicator that is not defined according to U.S. GAAP. Cash costs per tonne includes various production costs, such as raw materials, auxiliary materials, wages and social taxes of production personnel, electricity, gas and fuel costs, repairs and maintenance of production equipment, costs of mining works, mineral extraction tax and royalty payments, but excludes non-cash items such as depreciation, depletion and write-down of inventories to their net realizable value. We use this indicator to evaluate the performance of individual production subsidiaries and their respective ability to generate cash. Cash costs per tonne is a widely used performance indicator in the mining industry to evaluate the cost-effectiveness of mining operations. We believe that investors use this indicator in addition to the financial information prepared in accordance with U.S. GAAP to evaluate the performance of our companies. Consequently, this information must be considered supplementary and should not be regarded as a substitute for the performance indicators prepared in accordance with U.S. GAAP.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2014 is presented below:

	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Coal Southern Kuzbass Coal Company sales to third parties	8,029	32	254,429
Coal Southern Kuzbass Coal Company intersegment sales	1,490	32	47,212
Coal Yakutugol sales to third parties	8,338	25	211,955

Coal Yakutugol intersegment sales		25	
Coal Elgaugol sales to third parties	668	21	13,824
Coal Elgaugol intersegment sales		21	
Iron ore Korshunov Mining Plant sales to third parties	1,169	48	56,086
Iron ore Korshunov Mining Plant intersegment sales	1,920	48	92,166
Coke Moscow Coke and Gas Plant sales to third parties(1)	775	181	140,089
Coke Moscow Coke and Gas Plant intersegment sales		181	
Coke Mechel Coke sales to third parties(2)	487	125	60,778

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	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Coke Mechel Coke intersegment sales	1,961	125	244,725
Depreciation			154,277
Depletion			47,797
Write-down of inventory to their net realizable value			9,532
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales			11,421
Costs of other products and services (coking products, washing services) and costs of other subsidiaries(3)			2,522
Total mining segment cost of sales			1,346,813

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $11, or 6%, at Moscow Coke and Gas Plant in the year ended December 31, 2014.

(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $18, or 15%, at Mechel Coke in the year ended December 31, 2014.

(3) Line Costs of other products and services was increased by the amount of by-products credits of $22.1 million in the year ended December 31, 2014.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2013 is presented below:

	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Coal Southern Kuzbass Coal Company sales to third parties	7,373	37	275,953
Coal Southern Kuzbass Coal Company intersegment sales	1,731	37	64,853
Coal Yakutugol sales to third parties	9,025	34	302,550
Coal Yakutugol intersegment sales		34	
Iron ore Korshunov Mining Plant sales to third parties	3,688	50	184,746
Iron ore Korshunov Mining Plant intersegment sales		50	
Coke Moscow Coke and Gas Plant sales to third parties(1)	665	221	147,252
Coke Moscow Coke and Gas Plant intersegment sales		221	
Coke Mechel Coke sales to third parties(2)	347	161	56,040
Coke Mechel Coke intersegment sales	1,936	161	312,391
Depreciation			171,773
Depletion			58,432
Write-down of inventory to their net realizable value			6,017

Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales	11,535
Costs of other products and services (coking products, washing services) and costs of other subsidiaries[3]	36,080
Total mining segment cost of sales	1,627,622

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $7, or 3%, at Moscow Coke and Gas Plant in the year ended December 31, 2013.

(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $20, or 13%, at Mechel Coke in the year ended December 31, 2013.

(3) Line Costs of other products and services was increased by the amount of by-products credits of $20.1 million in the year ended December 31, 2013.

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Selling, distribution and operating expenses

Selling, distribution and operating expenses decreased by $1,069.2 million, or 32.2%, to $2,247.7 million in the year ended December 31, 2014 from $3,316.9 million in the year ended December 31, 2013, as a result of a decrease in provisions for amounts due from related parties in the steel and power segments and recognition of impairment of goodwill and long-lived assets in the steel and power segments in the year ended December 31, 2013. As a percentage of consolidated revenues, selling, distribution and operating expenses decreased to 35.1% in the year ended December 31, 2014 from 39.0% in the year ended December 31, 2013, mainly due to the change in structure of export sales from Europe to Asia. Our selling, distribution and operating expenses consist primarily of selling and distribution expenses, taxes other than income tax, loss on write off of property, plant and equipment, provision for doubtful accounts, amounts due from related parties, impairment of goodwill and long-lived assets and general, administrative and other operating expenses. The table below sets forth these costs by segment for the years ended December 31, 2014 and 2013, including as a percentage of segment revenues.

Selling, Distribution and Operating Expenses by Segment	**Year Ended December 31, 2014 Amount**	**Year Ended December 31, 2014 % of Segment Revenues**	**Year Ended December 31, 2013 Amount**	**Year Ended December 31, 2013 % of Segment Revenues**
	(In thousands of U.S. dollars, except for percentages)			
Mining segment				
Selling and distribution expenses	878,340	33.3%	943,769	30.0%
Taxes other than income tax	132,026	5.0%	78,167	2.5%
Allowance for doubtful accounts	6,213	0.2%	9,138	0.3%
Accretion expense	3,945	0.1%	3,344	0.1%
Provision for amounts due from related parties	3,093	0.1%	1,566	0.0%
Loss on write off of property, plant and equipment	8,560	0.3%	16,358	0.5%
Impairment of goodwill and long-lived assets		0.0%	5,659	0.2%
General, administrative and other operating expenses	197,219	7.5%	246,945	7.9%
Total	1,229,396	46.6%	1,304,946	41.5%
Steel segment				
Selling and distribution expenses	353,866	9.2%	522,507	9.7%
Taxes other than income tax	38,181	1.0%	45,530	0.8%
Loss on write off of property, plant and equipment	5,975	0.2%	896	0.0%
Impairment of goodwill and long-lived assets	120,237	3.1%	181,925	3.4%
Provision for amounts due from related parties	32,999	0.9%	699,829	13.0%
Accretion expense	839	0.0%	1,116	0.0%
Allowance (recovery of allowance) for doubtful accounts	23,434	0.6%	(2,999)	(0.1%)
General, administrative and other operating expenses	182,529	4.7%	244,759	4.6%
Total	758,060	19.7%	1,693,563	31.4%
Power segment				
Selling and distribution expenses	228,435	22.1%	254,135	21.4%

Taxes other than income tax	2,241	0.2%	1,875	0.2%
Loss on write off of property, plant and equipment	2,860	0.3%		0.0%
Impairment of goodwill and long-lived assets		0.0%	28,143	2.4%
Provision for amounts due from related parties	5,333	0.5%	12,786	1.1%
Allowance for doubtful accounts	8,321	0.8%	3,023	0.3%
Accretion expense	179	0.0%	65	0.0%
General, administrative and other operating expenses	12,857	1.2%	18,400	1.5%
Total	260,226	25.2%	318,427	26.9%

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Mining segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by $65.5 million, or 6.9%, to $878.3 million in the year ended December 31, 2014 from $943.8 million in the year ended December 31, 2013, mainly due to the decrease in iron ore export sales volumes by 74.3%. As a percentage of mining segment revenues, selling and distribution expenses increased from 30.0% to 33.3% due to a decrease of 20.4% in sales revenue from sales to third parties and simultaneous decrease of 6.9% in selling and distribution expenses.

Taxes other than income tax increased by $53.8 million, or 68.8%, to $132.0 million in the year ended December 31, 2014 from $78.2 million in the year ended December 31, 2013. The increase was due to several accruals for taxes other than income tax made in the financial statements for the year ended December 31, 2014, namely additional tax liabilities for previous years of $19.8 million at Tomusinsky Open Pit and tax penalties imposed by the tax authorities due to delays in tax payments at mining subsidiaries of $10.2 million. The property tax on the rail line and related roadway to the Elga coal deposit increased by $23.4 million from $8.5 million in year ended December 31, 2013 to $31.9 million in year ended December 31, 2014 as the accruals commenced in October 2013.

Allowance for doubtful accounts decreased by $2.9 million to $6.2 million in the year ended December 31, 2014 from $9.1 million in the year ended December 31, 2013, due to the decrease in outstanding accounts receivable at the end of 2013. In accordance with our accounting policy, we apply specific rates to overdue accounts receivable depending on the history of cash collections and future expectations of conditions that might impact the collectibility.

Provisions for amounts due from related parties increased by $1.5 million to $3.1 million in the year ended December 31, 2014 from $1.6 million in the year ended December 31, 2013. Based on our future expectations we made a provision for accounts receivable from Calridge. See note 10 to the consolidated financial statements.

Loss on write off of property, plant and equipment decreased by $7.8 million, or 47.6%, to $8.6 million in the year ended December 31, 2014 from $16.4 million in the year ended December 31, 2013, due to the decrease in the number of property, plant and equipment objects that are not planned for further use in production process at Yakutugol and Southern Kuzbass Coal Company.

As a result of the impairment of goodwill analysis we recognized an impairment loss of $5.7 million for the year ended December 31, 2013 compared to $nil for the year ended December 31, 2014. An analysis of impairment of goodwill is performed on an annual basis. See note 24 to the consolidated financial statements.

General, administrative and other expenses consist of payroll and payroll taxes, depreciation, rent and maintenance, legal and consulting expenses, office overheads and other expenses. These expenses decreased by $49.7 million, or 20.1%, to $197.2 million in the year ended December 31, 2014 from $246.9 million in the year ended December 31, 2013, mainly as a result of the depreciation of the ruble relative to the U.S. dollar as almost all general, administrative and other expenses are denominated in rubles: salaries and related social taxes decreased by $18.3 million, or 13%, to $122.3 million in the year ended December 31, 2014 from $140.6 million in the year ended December 31, 2013; legal and consulting fees and insurance services decreased by 36% to $5.7 million in the year ended December 31, 2014 from $8.9 million in the year ended December 31, 2013; rent and maintenance, business travel expenses, bank charges and office expenses decreased by 24.1% to $24.2 million in the year ended December 31, 2014 from $31.9 million in the year ended December 31, 2013; social expenses decreased by $1.3 million, or 25%, to $3.9 million in the year ended December 31, 2014 from $5.2 million in the year ended December 31, 2013; and other administrative and operating expenses decreased by $19.2 million, or 31.8%, to $41.1 million in the year ended December 31, 2014 from $60.3 million in the year ended December 31, 2013.

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Steel segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by $168.6 million, or 32.3%, to $353.9 million in the year ended December 31, 2014 from $522.5 million in the year ended December 31, 2013, mainly due to a decrease in export sales volumes by 35.4% and domestic sales volumes by 20.9%. As a percentage of steel segment revenues, selling and distribution expenses decreased to 9.2% in the year ended December 31, 2014 from 9.7% in the year ended December 31, 2013.

Taxes other than income tax decreased by $7.3 million, or 16.0%, to $38.2 million in the year ended December 31, 2014 from $45.5 million in the year ended December 31, 2013. As a percentage of segment revenues, these taxes increased from 0.8% to 1.0%. Property and land taxes decreased by $7.1 million, or 19.3%, to $29.6 million in the year ended December 31, 2014 from $36.7 million in the year ended December 31, 2013, mainly due to ruble depreciation and revision of the cadastral valuation of land.

Allowance for doubtful accounts increased by $26.4 million, or 880.0%, resulting in a $23.4 million loss in the year ended December 31, 2014 from a $3.0 million income in the year ended December 31, 2013, due to higher provisions with respect to outstanding amounts owed by certain of the segment s consumers (engineering and transport industries) that are experiencing liquidity problems.

Provision for amounts due from related parties decreased by $666.8 million, or 95.3%, to $33.0 million in the year ended December 31, 2014 from $699.8 million in the year ended December 31, 2013, mainly due to the fact that main provision was recognized in 2013:

- in 2013, based on our estimates of future cash inflows of trade balances and prepayments from the related metallurgical plants and Metallurg-Trust we recognized a provision of $699.8 million for these balances; and

- in 2014, based on our estimates of future cash inflows of accounts receivable from certain related metallurgical plants and Metallurg-Trust we recognized a provision of $26.2 million, as well as a provision of $6.8 million from other related parties.

Loss on write off of property, plant and equipment increased by $5.1 million, or 566.7%, to $6.0 million in the year ended December 31, 2014 from $0.9 million in the year ended December 31, 2013, due to the increase in the amount of idled property, plant and equipment written off by our steel production subsidiaries.

Impairment of goodwill and long-lived assets decreased by $61.7 million, or 33.9%, to $120.2 million in the year ended December 31, 2014 from $181.9 million in the year ended December 31, 2013, due to the following:

- in 2013, we recognized impairment of goodwill in relation to our trading subsidiaries WNL Staal and Ramateks of $4.5 million due to the continuing decrease in prices for commodities and the lack of positive prospects for the recovery of the European market and impairment of long-lived assets in relation to Donetsk Electrometallurgical Plant of $177.4 million as a result of reduction of the carrying amount of the assets to their fair value; and in 2014, we recognized impairment of long-lived assets in relation to Izhstal of $101.1 million, Donetsk Electrometallurgical Plant of $18.0 million and Mechel Service Romania of $1.1 million due to the lack of positive prospects for the recovery of the European market.

General, administrative and other expenses decreased by $62.3 million, or 25.4%, to $182.5 million in the year ended December 31, 2014 from $244.8 million in the year ended December 31, 2013, and increased as a percentage of segment revenues to 4.7% in the year ended December 31, 2014 from 4.6% in the year ended December 31, 2013. Payroll and related social taxes decreased by $27.2 million, or 22.6%, to $93.1 million in the year ended December 31, 2014 from $120.3 million in the year ended December 31, 2013, mainly due to the

20.6% depreciation of the ruble relative to the U.S. dollar and optimization of personnel capacity in our European trading companies. Social expenses (including pension expenses) decreased by $3.3 million, or 31.7%, to $7.1 million in the year ended December 31, 2014 from $10.4 million in the year ended December 31, 2013, due to the cost-cutting measures implemented by our management. Rent and maintenance, business travel expenses, bank charges and office expenses decreased by $14.8 million, or 35.7%, to $26.7 million in the year ended December 31, 2014 from $41.5 million in the year ended December 31, 2013, mainly due to the cost-cutting measures implemented by our management. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services decreased by $3.1 million, or 24.4%, to $9.6 million in the year ended December 31, 2014 from $12.7 million in the year ended December 31, 2013, due to the decreased involvement of external consultants in 2014. Other administrative and operating expenses decreased by $14.0 million, or 23.2%, to $46.0 million in the year ended December 31, 2014 from $59.9 million in the year ended December 31, 2013, mainly due to the ruble depreciation.

Power segment

In 2014, selling and distribution expenses consisted almost entirely of electricity transmission costs incurred by our Kuzbass Power Sales Company for the usage of the power grid through which electricity is distributed to end consumers. These costs are incurred by all power distribution companies pursuant to agreements between the distribution company and the grid operator. These expenses decreased by $25.7 million, or 10.1%, to $228.4 million in the year ended December 31, 2014 from $254.1 million in the year ended December 31, 2013, as a result of the depreciation of the ruble against the U.S. dollar. Selling and distribution expenses in ruble terms increased by 8% due to an increase in electricity sales volume.

Taxes other than income tax increased by $0.3 million, or 15.8%, to $2.2 million in the year ended December 31, 2014 from $1.9 million in the year ended December 31, 2013, due to the increase in property tax accrued by Southern Kuzbass Power Plant.

Allowance for doubtful accounts decreased by $2.1 million to $13.7 million in the year ended December 31, 2014 from $15.8 million in the year ended December 31, 2013, mainly due to the decrease in allowance for trade receivables from the related metallurgical plants.

In 2013, as a result of the goodwill impairment test we recognized the impairment loss of Kuzbass Power Sales Company in the amount of $28.1 million for the year ended December 31, 2013. The goodwill impairment test is made on an annual basis. No impairment loss was recognized in 2014. See note 24 to the consolidated financial statements.

General, administrative and other expenses decreased by $5.5 million, or 29.9%, to $12.9 million in the year ended December 31, 2014 from $18.4 million in the year ended December 31, 2013, due to reversal of provisions for penalties of commercial agreements and reduction in personnel expenses as a result of power plants organizational optimization.

Operating income (loss)

Operating income (loss) changed by $783.2 million, or 119.2%, to $126.4 million income in the year ended December 31, 2014 from $656.8 million loss in the year ended December 31, 2013. Operating income as a percentage of consolidated revenues was 2.0% in the year ended December 31, 2014 and operating loss as a percentage of consolidated revenues was 7.7% in the year ended December 31, 2013, mainly due to an increase in consolidated gross margin to 37.1% in the year ended December 31, 2014 from 31.3% in the year ended December 31, 2013 and a decrease in losses from provision for amounts due from related parties as explained above.

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The table below sets out operating income (loss) by segment, including as a percentage of segment revenues.

Operating Income (Loss) by Segment	Year Ended December 31, 2014 Amount	% of Segment Revenues	Year Ended December 31, 2013 Amount	% of Segment Revenues
	(In thousands of U.S. dollars, except for percentages)			
Mining segment	63,682	2.4%	211,895	6.7%
Steel segment	42,120	1.1%	(853,059)	(15.9)%
Power segment	8,018	0.8%	(12,644)	(1.1)%
Elimination of intersegment unrealized loss (profit)[1]	12,608		(2,949)	
Consolidated operating income (loss)	126,428		(656,757)	

(1) Our management evaluates the performance of our segments before the elimination of unrealized profit in inventory balances of segments that was generated by the segments but not recognized as profit in our consolidated financial statements until the sale of such inventories to third parties. Therefore, we present our segments before such elimination, and such elimination is presented separately. The change in intersegment unrealized profit adjustment in the year ended December 31, 2014 as compared to the year ended December 31, 2013 was due to the decrease in gross margin of our mining segment in 2014.

Mining segment

Mining segment operating income decreased by $148.2 million, or 69.9%, to $63.7 million in the year ended December 31, 2014 from $211.9 million in the year ended December 31, 2013. The operating margin percentage decreased to 2.4% in the year ended December 31, 2014 from 6.7% in the year ended December 31, 2013, mainly due to the decrease in coking coal, anthracite and PCI, coke and iron ore sales prices, as well as the decrease in iron ore sales volumes.

Steel segment

Steel segment operating loss decreased by $895.2 million, or 104.9%, to $42.1 million income in the year ended December 31, 2014 from $853.1 million loss in the year ended December 31, 2013. The operating margin percentage changed to positive 1.1% in the year ended December 31, 2014 from negative 15.9% in the year ended December 31, 2013, mainly due to the factors that affected operating income in 2013, such as the recognition of losses from the impairment of long-lived assets of Donetsk Electrometallurgical Plant and a provision on trade and other balances due from the related metallurgical plants as well as the increase in gross profit margin in 2014 following the reduction in raw materials prices that are the main input for the goods produced by the steel segment, the increase of production of high value-added products and the decrease of repair expenses.

Power segment

Power segment operating income increased by $20.6 million, or 163.5%, to an operating income of $8.0 million in the year ended December 31, 2014 from an operating loss of $12.6 million in the year ended December 31, 2013. The operating margin percentage became positive 0.8% in the year ended December 31, 2014 as compared to negative 1.1% in the year ended December 31, 2013, as a result of the optimization of expenses and the increase in sales tariffs.

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Other income and expense, net

Other income and expense, net consists of income from equity investees, interest income, interest expense, other loss and foreign exchange loss. The table below sets forth these costs for the years ended December 31, 2014 and 2013, including as a percentage of revenues.

Other Income and Expense, Net	**Year Ended December 31, 2014**		**Year Ended December 31, 2013**	
	Amount	**% of Revenues**	**Amount**	**% of Revenues**
	(In thousands of U.S. dollars, except for percentages)			
Income from equity investees	276	0.0%	3,589	0.0%
Interest income	2,398	0.0%	7,330	0.1%
Interest expense	(793,228)	(12.4)%	(740,601)	(8.7)%
Other loss, net	(9,613)	(0.2)%	(74,571)	(0.9)%
Foreign exchange loss	(2,396,123)	(37.4)%	(164,768)	(1.9)%
Total	(3,196,290)	(50.0)%	(969,021)	(11.4)%

Income from equity investees decreased by $3.3 million, or 91.7%, to $0.3 million in the year ended December 31, 2014 from $3.6 million in the year ended December 31, 2013. Income earned by the group in 2013 related to our share of income from our equity investment of Port Vanino amounted to $3.3 million (see note 9 to the consolidated financial statements).

Interest income decreased by $4.9 million, or 67.1%, to $2.4 million in the year ended December 31, 2014 from $7.3 million in the year ended December 31, 2013. The decrease was mainly due to the fact that interest income in 2013, but not 2014, included interest of Southern Kuzbass Coal Company s deposit and interest on loans provided to Romanian companies.

Interest expense increased by $52.6 million, or 7.1%, to $793.2 million in the year ended December 31, 2014 from $740.6 million in the year ended December 31, 2013, due to the increase in the weighted average interest rate from 9.1% in the year ended December 31, 2013 to 11.5% in the year ended December 31, 2014 and also because of changes in exchange rates.

Other loss decreased by $65.0 million, or 87.1%, to $9.6 million in the year ended December 31, 2014 from $74.6 million in the year ended December 31, 2013, mainly due to the disposal of the Romanian subsidiaries of $80.3 million which included the accumulated currency translation adjustment in 2013.

Foreign exchange loss increased by $2,231.3 million, or 1,353.9%, to $2,396.1 million in the year ended December 31, 2014 from $164.8 million in the year ended December 31, 2013, mainly due to revaluation of the U.S. dollar-denominated debts and payables of Yakutugol and Southern Kuzbass Coal Company, as well as to the depreciation of the ruble against the U.S. dollar.

Income tax expense

Income tax expense changed by $263.0 million, or 332.5%, to $183.9 million benefit in the year ended December 31, 2014 from $79.1 million expense in the year ended December 31, 2013, due to an overall decrease in operating income. Our effective tax rate changed to positive 6.0% from negative 4.9%, due to the increase in loss from continuing operations before income tax.

Net loss from discontinued operations

Net loss from discontinued operations increased by $255.7 million, or 21.0%, to $1,473.8 million in the year ended December 31, 2014 from $1,218.1 million in the year ended December 31, 2013, mainly due to the recognition of Bluestone as held for sale in 2014.

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Net income (loss) attributable to non-controlling interests

Net income (loss) attributable to non-controlling interests changed by $29.3 million, or 586.0%, to a $24.3 million loss in the year ended December 31, 2014 from a $5.0 million income in the year ended December 31, 2013. The non-controlling interest in the loss of our subsidiaries in the year ended December 31, 2014 was $30.5 million for Southern Kuzbass Coal Company and $16.2 million for Izhstal and was partially offset by the non-controlling interest in the income of Korshunov Mining Plant of $7.1 million and Urals Stampings Plant of $4.2 million.

Net loss attributable to shareholders of Mechel

Net loss attributable to our shareholders increased by $1,407.4 million, or 48.1%, to $4,335.4 million in the year ended December 31, 2014 from $2,928.0 million in the year ended December 31, 2013, due to the increase of foreign exchange losses and losses of discontinued operations.

Net loss attributable to common shareholders of Mechel

Net loss attributable to our common shareholders increased by $1,407.4 million, or 48.1%, to $4,335.6 million in the year ended December 31, 2014 from $2,928.1 million in the year ended December 31, 2013. This change was in line with the increase in net loss attributable to all our shareholders.

Year ended December 31, 2013 compared to year ended December 31, 2012

Net revenues

Consolidated revenues decreased by $2,247.6 million, or 20.9%, to $8,505.9 million in the year ended December 31, 2013 from $10,753.5 million in the year ended December 31, 2012.

The sales decrease was due to a decrease in sales prices across our major segments, as well as a decrease in sales volumes in our mining and steel segments.

The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

Net Revenues by Segment	**Year Ended December 31, 2013**	**Year Ended December 31, 2012**
	(In thousands of U.S. dollars, except percentages)	
Mining segment		
To third parties	2,619,262	3,143,660
To power segment	48,253	44,801
To steel segment	476,948	583,035
Total	3,144,463	3,771,496
Steel segment		
To third parties	5,132,100	6,852,614

To power segment	154,788	148,265
To mining segment	85,054	113,459
Total	5,371,942	7,114,338

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Net Revenues by Segment	Year Ended December 31, 2013	2012
	(In thousands of U.S. dollars, except percentages)	
Power segment		
To third parties	754,568	757,239
To steel segment	346,581	348,139
To mining segment	89,056	80,398
Total	1,190,205	1,185,776
Eliminations	1,200,679	1,318,097
Consolidated revenues	8,505,931	10,753,784
% from mining segment	30.8%	29.2%
% from steel segment	60.3%	63.7%
% from power segment	8.9%	7.0%

Mining segment

Our total mining segment sales decreased by $627.0 million, or 16.6%, to $3,144.5 million in the year ended December 31, 2013 from $3,771.5 million in the year ended December 31, 2012.

Coking coal concentrate sales to third parties decreased by $273.0 million, or 22%, to $966.5 million in the year ended December 31, 2013 from $1,239.5 million in the year ended December 31, 2012, as a result of a decrease in sales prices of $280.4 million, which was partially offset by an increase in sales volumes of $7.4 million. In 2013, there was an oversupply of coking coal on the international markets. Spot prices for premium hard coking coal declined during the first half of 2013 and dropped to a low of $131 per tonne (FOB Australia) in July, according to Platts. In the third quarter of 2013, spot prices rose to $152 per tonne due to improved buying activity from both Chinese and non-Chinese markets. In the fourth quarter of 2013, oversupply in the international markets continued and spot prices declined to $135 per tonne (FOB Australia) in December 2013. In general, spot prices in 2013 decreased by 23% in comparison with 2012. Hard coking coal contract prices were also depressed by weak market conditions in 2013. In the first quarter of 2013, contract prices fell to $165 per tonne (FOB Australia). The second quarter of 2013 was characterized by a moderate increase in contract prices to $172 per tonne (FOB Australia). In the third and fourth quarters of 2013, contract prices were set at $145 per tonne and $152 per tonne (FOB Australia), respectively.

The volume of coking coal concentrate sold to third parties increased insignificantly by 44.7 thousand tonnes, or 0.6%, to 7,500 thousand tonnes in the year ended December 31, 2013 from 7,455 thousand tonnes in the year ended December 31, 2012.

The volume of coking coal sold to third parties increased at Yakutugol and decreased at Southern Kuzbass Coal Company. Yakutugol s coking coal sales volumes increased by 776 thousand tonnes, or 16%, to 5,679 thousand tonnes in the year ended December 31, 2013 from 4,903 thousand tonnes in the year ended December 31, 2012. Southern Kuzbass Coal Company s coking coal sales volumes decreased by 730 thousand tonnes, or 29%, to 1,821 thousand tonnes in the year ended December 31, 2013 from 2,551 thousand tonnes in the year ended December 31, 2012.

Coke sales to third parties (including to Southern Urals Nickel Plant, which is classified as discontinued operations) decreased by $149.2 million, or 40.9%, to $215.5 million in the year ended December 31, 2013 from $364.7 million in the year ended December 31, 2012, as a result of a decrease in sales prices of $54 million and a decrease in sales volumes of $95.2 million. The decrease in sales prices was driven by the decrease in the price of coking coal, the key raw material in the production of coke. Coke sales volume decreased both in domestic and export markets. The sales volume decrease in the domestic market was due to the suspension of operations at

Southern Urals Nickel Plant in the fourth quarter of 2012, and no coke sales were made to Southern Urals Nickel Plant in 2013. Export sales of coke decreased as a result of both a drop in market prices and lower production volumes of relevant quality coke caused by the reduction of high-quality coking coal production.

Coke supplied to the steel segment decreased by $127.6 million, or 25%, to $382.3 million in the year ended December 31, 2013 from $509.9 million in the year ended December 31, 2012. The decrease was due to a decrease in sales prices of $75.4 million and a decrease in sales volumes of $52.2 million. Coke sales volumes from Mechel Coke to Chelyabinsk Metallurgical Plant decreased by 220 thousand tonnes, or 10%, from 2,149 thousand tonnes in the year ended December 31, 2012 to 1,929 thousand tonnes in the year ended December 31, 2013 as a result of lower demand due to a decrease in pig iron production volumes.

Chemical products sales to third parties decreased by $8.2 million, or 10.8%, to $67.7 million in the year ended December 31, 2013 from $75.9 million in the year ended December 31, 2012, mainly as a result of a decrease in sales volumes. Sales volumes decreased mainly due to the reduction of chemical products production volumes in line with the reduction of coke production volumes.

Anthracite and PCI sales to third parties decreased by $15.3 million, or 2.1%, to $696.5 million in the year ended December 31, 2013 from $711.8 million in the year ended December 31, 2012, as a result of a decrease in sales prices of $129.9 million, which was significantly offset by an increase of $114.6 million in sales volumes. Sales prices decreased due to the drop in the price of coking coal, the key raw material in the production of anthracite and PCI. Sales volumes increased due to our decision to increase production volumes of PCI instead of steam coal.

Steam coal sales to third parties decreased by $43.4 million, or 36.6%, to $75.3 million in the year ended December 31, 2013 from $118.7 million in the year ended December 31, 2012, as a result of a decrease in sales volumes of $33.2 million and a decrease in sales prices of $10.2 million. Overall, steam coal prices movement corresponded to the downward trend in coking coal prices during 2013. The decrease in sales volumes was mainly due to continued realization of our strategy of increasing PCI production and sales at the expense of steam coal.

Steam coal supplied to the power segment increased by $2.1 million, or 10.4%, to $22.3 million in the year ended December 31, 2013 from $20.2 million in the year ended December 31, 2012, as a result of an increase in sales volumes of $2.3 million that was partially offset by a decrease in sales prices of $0.2 million. Sales of steam coal from Southern Kuzbass Coal Company to Southern Kuzbass Power Plant increased by 108 thousand tonnes, or 15%, from 717 thousand tonnes in the year ended December 31, 2012 to 825 thousand tonnes in the year ended December 31, 2013 due to increased electricity production caused by higher demand for power in the Kemerovo region.

Sales of iron ore to third parties decreased by $32.8 million, or 7.4%, to $411.9 million in the year ended December 31, 2013 from $444.7 million in the year ended December 31, 2012, as a result of a decrease in sales volumes of $50.2 million, which was partially offset by an increase of $17.4 million in sales prices. The average annual spot iron ore price (63.5% Fe dry, CIF) increased by 3% from $135 per tonne in the year ended December 31, 2012 to $139 per tonne in the year ended December 31, 2013, according to CRU. Iron ore sales volumes decreased by 469 thousand tonnes, or 11%, from 4,157 thousand tonnes in the year ended December 31, 2012 to 3,688 thousand tonnes in the year ended December 31, 2013; at the same time iron ore sales in the domestic market increased by 31% while iron ore sales in the export market decreased by 29%. The main reason for such sales re-orientation was the increase in demand from major domestic customers (such as EVRAZ).

Supplies of iron ore to the steel segment increased by $26.5 million, or 131.8%, to $46.6 million in the year ended December 31, 2013 from $20.1 million in the year ended December 31, 2012, as a result of $10.6 million increase in sales prices and $15.9 million increase in sales volumes. Sales volumes increased because of the increased share of iron ore consumed at Chelyabinsk Metallurgical Plant which was produced by Korshunov

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Mining Plant from 3.2% in the year ended December 31, 2012 to 8.2% in the year ended December 31, 2013, in turn, the result of a substitution of external supplies. In 2013, the increase in sales prices corresponded to the world market upward trend: the average iron ore spot prices increased by 5% in comparison with 2012.

Excluding intersegment sales, export sales remained stable at the level of 70.8% of mining segment sales in the year ended December 31, 2013, compared to 70.6% in the year ended December 31, 2012.

Steel segment

Our steel segment revenues decreased by $1,742.4 million, or 24.5%, to $5,371.9 million in the year ended December 31, 2013 from $7,114.3 million in the year ended December 31, 2012. The decrease in third-party sales volumes was due to the disposal of the Romanian subsidiaries and the cessation of purchases and resale of products from the related metallurgical plants in 2013. In 2013, steel segment sales in domestic and export markets showed different trends: demand in our export market was soft due to unstable economic and political conditions, while demand in our domestic market was relatively strong. Consumption of steel products in Russia increased by 1.3% in the year ended December 31, 2013 to 45.7 million tonnes from 45.1 million tonnes in the year ended December 31, 2012, according to Metal Expert.

Semi-finished products sales decreased by $731.5 million, or 62.2%, to $443.9 million in the year ended December 31, 2013 from $1,175.4 million in the year ended December 31, 2012, as a result of a decrease of $26.4 million in sales prices and a decrease of $705.1 million in sales volumes. Sales prices decreased due to a decrease in the world prices for billets: the average price for square billet (FOB Black Sea) decreased by 10% to $509 per tonne in the year ended December 31, 2013 from $564 per tonne in the year ended December 31, 2012, according to Metal Expert. The decrease in third-party sales volumes was due to the increase in consumption within our steel segment and to the decrease in sales volumes of semi-finished products purchased from the related metallurgical plants.

Other long products sales decreased by $160.1 million, or 15.9%, to $845.8 million in the year ended December 31, 2013 from $1,005.9 million in the year ended December 31, 2012, as a result of a decrease of $39.3 million in sales prices and a decrease of $120.8 million in sales volumes. The decrease in sales prices was mainly driven by the decrease in the prices of steel-making raw materials (iron ore, coking coal, etc.) as well as by the decrease in world demand. Sales volumes decreased due to the disposal of the Romanian subsidiaries and the decrease in sales volumes of products purchased from the related metallurgical plants.

Other flat products sales decreased by $97.1 million, or 19.9%, to $391.8 million in the year ended December 31, 2013 from $488.9 million in the year ended December 31, 2012, as a result of a decrease of $17.1 million in sales prices and a decrease of $80.0 million in sales volumes. The decrease in sales prices was driven by a decrease in domestic and export prices during 2013: annual average price for hot-rolled coil (Russia exports, FOB Black Sea) decreased by 5% to $549 per tonne in the year ended December 31, 2013 from $578 per tonne in the year ended December 31, 2012, according to Metal Expert. The sales volume decreased due to reduction of sales volume of other flat products purchased from the related metallurgical plants.

Wire sales decreased by $113.8 million, or 19.2%, to $479.4 million in the year ended December 31, 2013 from $593.2 million in the year ended December 31, 2012, as a result of a decrease of $33.3 million in sales prices and a decrease of $80.5 million in sales volumes. The decrease in sales prices was driven by the decrease in the prices of wire rod used as the main input for wire production, as well as by the decrease in world demand. Sales volumes decreased due to the disposal of the Romanian subsidiaries.

Rebar sales decreased by $249.6 million, or 14.8%, to $1,439.8 million in the year ended December 31, 2013 from $1,689.4 million in the year ended December 31, 2012, as a result of a decrease of $137.8 million in sales prices and a decrease of $111.8 million in sales volumes. In 2013, the Russian domestic price for rebar declined by 15% to $601 per tonne from $707 per tonne in 2012, according to Metal-Courier. Sales volumes decreased due to the disposal of the Romanian subsidiaries and the revised strategy to focus on sales of key products by our European trading subsidiaries.

Steel pipes sales decreased by $78.6 million, or 30.1%, to $182.4 million in the year ended December 31, 2013 from $261.0 million in the year ended December 31, 2012, as a result of a decrease of $6.2 million in sales prices and a decrease of $72.4 million in sales volumes. The sales volume decreased due to reduction of sales volume of products purchased from the related metallurgical plants. The price decreased due to the weakening demand in the Russian market as well as in the European and Asian markets.

Pig iron sales decreased by $41.0 million, or 37.2%, to $69.1 million in the year ended December 31, 2013 from $110.1 million in the year ended December 31, 2012, as a result of a decrease of $11.8 million in sales prices and a decrease of $29.3 million in sales volumes. The decrease in third-party sales was due to an increase in consumption within our steel segment.

Stampings sales decreased by $39.5 million, or 13.6%, to $250.2 million in the year ended December 31, 2013 from $289.7 million in the year ended December 31, 2012, as a result of a decrease of $15.8 million in sales prices and a decrease of $23.7 million in sales volumes. The decrease in sales prices was driven by the decrease in domestic prices during 2013 as a result of weakening demand. The decrease in sales volumes was due to lower demand from the key consuming industries (engineering and transport industries).

Ferrosilicon sales increased by $11.4 million, or 17.4%, to $77.0 million in the year ended December 31, 2013 from $65.6 million in the year ended December 31, 2012, as a result of a decrease of $6.9 million in sales prices that was offset by an increase of $18.4 million in sales volumes. The increase in sales volumes was due to the increase in stainless steel production volumes in the year ended December 31, 2013. Sales prices decreased due to a decrease in the price of ferrosilicon in Russia attributable to weakening demand. Increase in sales volumes was due to the increase in export sales to the Asian market following the growth of demand.

Sales of non-core products and services decreased by $190.1 million, or 46.1%, to $221.9 million in the year ended December 31, 2013 from $412.0 million in the year ended December 31, 2012, due to the decrease in scrap metal sales and services to the related metallurgical plants.

Excluding intersegment sales, export sales were 19.1% of steel segment sales in the year ended December 31, 2013, compared to 25.0% in the year ended December 31, 2012. The proportion of our export sales decreased due to the weakening demand in the European markets in 2013 and the reduction of export sales in Middle East and Asia by 67.0% and 40.0%, respectively, as a result of the declined purchases from the related metallurgical plants in 2013.

Power segment

Our power segment revenues increased by $4.4 million, or 0.4%, to $1,190.2 million in the year ended December 31, 2013 from $1,185.8 million in the year ended December 31, 2012.

Electricity sales to third parties increased by $1.8 million, or 0.3%, to $673.1 million in the year ended December 31, 2013 from $671.3 million in the year ended December 31, 2012, as a result of an increase of $17.8 million in sales prices which was mostly offset by a decrease of $16.0 million in sales volumes. Sales prices increased as a result of further liberalization of sales prices in the Russian electricity market. The decrease in sales volumes occurred as a result of lower demand due to weakness in the steel market.

Other revenue, which consists mostly of heat energy, decreased by $4.4 million, or 5.1%, to $81.5 million in the year ended December 31, 2013 from $85.9 million in the year ended December 31, 2012, due to the decrease in revenue following the disposal of Nytva-Energo, a heat energy producer, in October 2012.

Intersegment sales increased by $7.1 million, or 1.7%, to $435.6 million in the year ended December 31, 2013 from $428.5 million in the year ended December 31, 2012, as a result of the increase in electricity sales volumes to the mining segment.

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Southern Kuzbass Power Plant contributed $18.1 million to power segment revenues through power generation capacity sales to third parties in the year ended December 31, 2013 compared to $11.5 million contributed by Southern Kuzbass Power Plant and Mechel Energo in the year ended December 31, 2012.

Cost of goods sold and gross margin

The consolidated cost of goods sold was 68.7% of consolidated revenues in the year ended December 31, 2013, as compared to 69.1% of consolidated revenues in the year ended December 31, 2012, resulting in an increase in consolidated gross margin to 31.3% in the year ended December 31, 2013 from 30.9% for the year ended December 31, 2012. Cost of goods sold primarily consists of costs relating to raw materials (including products purchased for resale), direct payroll, depreciation and energy. The table below sets forth cost of goods sold and gross margin by segment for the years ended December 31, 2013 and 2012, including as a percentage of segment revenues.

Cost of Goods Sold and Gross Margin by Segment	Year Ended December 31, 2013 Amount	Year Ended December 31, 2013 % of Segment Revenues	Year Ended December 31, 2012 Amount	Year Ended December 31, 2012 % of Segment Revenues
	(In thousands of U.S. dollars, except for percentages)			
Mining segment				
Cost of goods sold	1,627,622	51.8%	1,866,235	49.5%
Gross margin	1,516,841	48.2%	1,905,261	50.5%
Steel segment				
Cost of goods sold	4,531,438	84.4%	6,055,146	85.1%
Gross margin	840,504	15.6%	1,059,192	14.9%
Power segment				
Cost of goods sold	884,423	74.3%	879,833	74.2%
Gross margin	305,783	25.7%	305,943	25.8%

Mining segment

Mining segment cost of goods sold decreased by $238.6 million, or 12.8%, to $1,627.6 million in the year ended December 31, 2013 from $1,866.2 million in the year ended December 31, 2012. The gross margin percentage decreased to 48.2% in the year ended December 31, 2013 from 50.5% in the year ended December 31, 2012.

The decrease in the mining segment s gross margin percentage is due to the decrease in FCA sales prices of coking coal, anthracite, PCI and iron ore in the export and domestic markets by 27.1%, 12.9% and 12.4%, respectively.

Coal production cash costs per tonne (see Cash Costs per Tonne Measure) at Southern Kuzbass Coal Company decreased by $3.4 per tonne, or 8.3%, from $40.8 in the year ended December 31, 2012 to $37.4 in the year ended December 31, 2013, mainly due to:

- a decrease in other production services by $2.0 per tonne due to the curtailment of repairs and reduction in drilling and blasting operations; and a decrease in raw materials expenses by $1.5 per tonne caused by the decrease in explosive materials consumption due, in turn, to a decline in mining excavation.

Production cash costs of coal at Yakutugol increased by $1.7 per tonne, or 5.5%, from $31.8 in the year ended December 31, 2012 to $33.5 in the year ended December 31, 2013, mainly due to an increase in raw materials expenses driven, in turn, by growth in fuel prices and an increase in personnel expenses caused by an annual salary indexation of 8.8% in 2013 compared to an indexation of 8.3% in 2012.

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Coke production cash costs decreased by 21.5% at Moscow Coke and Gas Plant and by 20.8% at Mechel Coke in line with the decrease in the purchase price of coking coal concentrate.

Production cash costs of iron ore increased by 12.0% due to the increase in drilling operation and personnel expenses by 35.3% and 21.7%, respectively.

Steel segment

Steel segment cost of goods sold decreased by $1,523.7 million, or 25.2%, to $4,531.4 million in the year ended December 31, 2013 from $6,055.1 million in the year ended December 31, 2012. Steel segment cost of goods sold was 84.4% of the segment s revenues in the year ended December 31, 2013, as compared to 85.1% in the year ended December 31, 2012. The increase in gross margin from 14.9% to 15.6% was primarily due to the disposal of the Romanian subsidiaries, which were recording sales of steel products with negative gross margin.

Power segment

Power segment cost of goods sold increased by $4.6 million, or 0.5%, to $884.4 million in the year ended December 31, 2013 from $879.8 million in the year ended December 31, 2012. Power segment gross margin percentage decreased to 25.7% in the year ended December 31, 2013 from 25.8% in the year ended December 31, 2012.

Cash Costs per Tonne Measure

In this document, we present cash costs per tonne for coal, coke and iron ore production for each significant production facility of our mining segment. Cash costs per tonne is a performance indicator that is not defined according to U.S. GAAP. Cash costs per tonne includes various production costs, such as raw materials, auxiliary materials, wages and social taxes of production personnel, electricity, gas and fuel costs, repairs and maintenance of production equipment, costs of mining works, mineral extraction tax and royalty payments, but excludes non-cash items such as depreciation, depletion and write-down of inventories to their net realizable value. We use this indicator to evaluate the performance of individual production subsidiaries and their ability to generate cash. Cash costs per tonne is a widely used performance indicator in the mining industry to evaluate the cost-effectiveness of mining operations. We believe that investors use this indicator in addition to the financial information prepared in accordance with U.S. GAAP to evaluate the performance of our companies. Consequently, this information must be considered supplementary and should not be regarded as a substitute for the performance indicators prepared in accordance with U.S. GAAP.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2013 is presented below:

	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Coal Southern Kuzbass Coal Company sales to third parties	7,373	37	275,953
	1,731	37	64,853

Coal Southern Kuzbass Coal Company intersegment sales			
Coal Yakutugol sales to third parties	9,025	34	302,550
Coal Yakutugol intersegment sales	0	34	0
Iron ore Korshunov Mining Plant sales to third parties	3,688	50	184,746
Iron ore Korshunov Mining Plant intersegment sales	0	50	0
Coke Moscow Coke and Gas Plant sales to third parties(1)	665	221	147,252
Coke Moscow Coke and Gas Plant intersegment sales	0	221	0
Coke Mechel Coke sales to third parties(2)	347	161	56,040
Coke Mechel Coke intersegment sales	1,936	161	312,391
Depreciation			171,773

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	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Depletion			58,432
Write-down of inventory to their net realizable value			6,017
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales			11,535
Costs of other products and services (coking products, washing services) and costs of other subsidiaries(3)			36,080
Total mining segment cost of sales			1,627,622

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $7, or 3%, at Moscow Coke and Gas Plant in the year ended December 31, 2013.
(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $20, or 13%, at Mechel Coke in the year ended December 31, 2013.
(3) Line Costs of other products and services was increased by the amount of by-products credits of $20.1 million in the year ended December 31, 2013.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2012 is presented below:

	In Thousands of Tonnes	Cash Cost, U.S. Dollars per Tonne	In Thousands of U.S. Dollars
Coal Southern Kuzbass Coal Company sales to third parties	7,534	41	307,348
Coal Southern Kuzbass Coal Company intersegment sales	698	41	28,462
Coal Yakutugol sales to third parties	8,435	32	268,097
Coal Yakutugol intersegment sales	0	32	0
Iron ore Korshunov Mining Plant sales to third parties	4,157	45	185,867
Iron ore Korshunov Mining Plant intersegment sales	251	45	11,223
Coke Moscow Coke and Gas Plant sales to third parties(1)	925	245	226,538
Coke Moscow Coke and Gas Plant intersegment sales	2	245	435
Coke Mechel Coke sales to third parties(2)	420	183	76,881
Coke Mechel Coke intersegment sales	2,158	183	395,059
Depreciation			155,293
Depletion			57,956
Write-down of inventory to their net realizable value			18,399

Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales	68,392
Costs of other products and services (coking products, washing services) and costs of other subsidiaries[3]	66,285
Total mining segment cost of sales	1,866,235

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $6, or 2%, at Moscow Coke and Gas Plant in the year ended December 31, 2012.

(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was $20, or 11%, at Mechel Coke in the year ended December 31, 2012.

(3) Line Costs of other products and services was increased by the amount of by-products credits of $22.1 million in the year ended December 31, 2012.

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Selling, distribution and operating expenses

Selling, distribution and operating expenses decreased by $598.7 million, or 15.3%, to $3,316.9 million in the year ended December 31, 2013 from $3,915.6 million in the year ended December 31, 2012, as a result of a decrease in provisions for amounts due from related parties in the mining and steel segments and impairment of goodwill and long-lived assets in the steel segment which was partially offset by an increase in selling and distribution expenses in the mining and power segments. As a percentage of consolidated revenues, selling, distribution and operating expenses increased to 39.0% in the year ended December 31, 2013 from 36.4% in the year ended December 31, 2012, mainly due to an increase in transportation tariffs and a change in the structure of export sales from Europe to Asia. Our selling, distribution and operating expenses consist primarily of selling and distribution expenses, taxes other than income tax, loss on write off of property, plant and equipment, provision for doubtful accounts, amounts due from related parties, impairment of goodwill and long-lived assets and general, administrative and other operating expenses. The table below sets forth these costs by segment for the years ended December 31, 2013 and 2012, including as a percentage of segment revenues.

Selling, Distribution and Operating Expenses by Segment	Year Ended December 31, 2013 Amount	% of Segment Revenues	Year Ended December 31, 2012 Amount	% of Segment Revenues
	(In thousands of U.S. dollars, except for percentages)			
Mining segment				
Selling and distribution expenses	943,769	30.0%	839,112	22.2%
Taxes other than income tax	78,167	2.5%	81,056	2.1%
Allowance for doubtful accounts	9,138	0.3%	4,162	0.1%
Accretion expense	3,344	0.1%	2,547	0.1%
Provision for amounts due from related parties	1,566	0.0%	22,668	0.6%
Loss on write off of property, plant and equipment	16,358	0.5%	6,820	0.2%
Impairment of goodwill and long-lived assets	5,659	0.2%		0.0%
General, administrative and other operating expenses	246,945	7.9%	222,331	5.9%
Total	1,304,946	41.5%	1,178,696	31.2%
Steel segment				
Selling and distribution expenses	522,507	9.7%	620,209	8.7%
Taxes other than income tax	45,530	0.8%	45,613	0.6%
Loss on write off of property, plant and equipment	896	0.0%	4,054	0.1%
Impairment of goodwill and long-lived assets	181,925	3.4%	607,877	8.5%
Provision for amounts due from related parties	699,829	13.0%	896,445	12.6%
Accretion expense	1,116	0.0%	1,225	0.0%
Allowance (recovery of allowance) for doubtful accounts	(2,999)	(0.1)%	16,711	0.2%
General, administrative and other operating expenses	244,759	4.6%	270,115	3.8%
Total	1,693,563	31.4%	2,462,247	34.5%
Power segment				

Selling and distribution expenses	254,135	21.4%	251,256	21.2%
Taxes other than income tax	1,875	0.2%	2,215	0.2%
Loss on write off of property, plant and equipment		0.0%	5	0.0%
Impairment of goodwill and long-lived assets	28,143	2.4%		0.0%
Provision for amounts due from related parties	12,786	1.1%		0.0%
Allowance for doubtful accounts	3,023	0.3%	6,706	0.6%
Accretion expense	65	0.0%	68	0.0%
General, administrative and other operating expenses	18,400	1.5%	14,379	1.2%
Total	318,427	26.9%	274,629	23.2%

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Mining segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses increased by $104.7 million, or 12.5%, to $943.8 million in the year ended December 31, 2013 from $839.1 million in the year ended December 31, 2012, mainly due to the increase in anthracite and PCI sales volumes by 16.1%. As a percentage of mining segment revenues, selling and distribution expenses increased from 22.2% to 30.0% due to a decrease of 16.7% in sales revenue from sales to third parties and an increase of 12.5% in selling and distribution expenses.

Taxes other than income tax decreased by $2.9 million, or 3.6%, to $78.2 million in the year ended December 31, 2013 from $81.1 million in the year ended December 31, 2012.

Allowance for doubtful accounts increased by $4.9 million to $9.1 million in the year ended December 31, 2013 from $4.2 million in the year ended December 31, 2012, due to the increase in outstanding accounts receivable at the end of 2013. In accordance with our accounting policy, we apply specific rates to overdue accounts receivable depending on the history of cash collections and future expectations of conditions that might impact collectibility.

Provisions for amounts due from related parties decreased by $21.1 million to $1.6 million in the year ended December 31, 2013 from $22.7 million in the year ended December 31, 2012. Based on our future expectations we made a provision for the advances issued to the related metallurgical plants. See note 10 to the consolidated financial statements.

Loss on write off of property, plant and equipment increased by $9.6 million, or 141.2%, to $16.4 million in the year ended December 31, 2013 from $6.8 million in the year ended December 31, 2012, due to an increase in the number of property, plant and equipment objects that are not planned for further use at Yakutugol and Southern Kuzbass Coal Company.

In 2013, as a result of the impairment of goodwill analysis, we recognized an impairment loss in the amount of $5.7 million for the year ended December 31, 2013. Impairment of goodwill analysis is made on an annual basis. No impairment loss was recognized in 2012. See note 24 to the consolidated financial statements.

General, administrative and other expenses consist of payroll and payroll taxes, depreciation, rent and maintenance, legal and consulting expenses, office overheads and other expenses. These expenses increased by $24.6 million, or 11.1%, to $246.9 million in the year ended December 31, 2013 from $222.3 million in the year ended December 31, 2012, mainly as a result of accrual for third parties claim against our subsidiaries. Salaries and related social taxes decreased by $0.8 million, or 0.6%, to $140.6 million in the year ended December 31, 2013 from $141.4 million in the year ended December 31, 2012, mainly as a result of the decrease in payroll due, in turn, to a reduction of administrative personnel. Legal and consulting fees and insurance services increased by 7.2% to $8.9 million in the year ended December 31, 2013 from $8.3 million in the year ended December 31, 2012. Rent and maintenance, business travel expenses, bank charges and office expenses increased by 6.3% to $31.9 million in the year ended December 31, 2013 from $30.0 million in the year ended December 31, 2012. Social expenses increased by $2.2 million, or 73.3%, to $5.2 million in the year ended December 31, 2013 from $3.0 million in the year ended December 31, 2012, mainly as a result of a decline in pension obligations at Yakutugol recognized in 2012. Other administrative and operating expenses increased by $20.7 million, mainly due to the accrual for fines and penalties paid by Yakutugol to customers for failure to meet coal quality requirements under the supply contracts in the amount of $4.4 million. No such expenses were recognized in 2012.

Steel segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by $97.7 million, or 15.8%, to $522.5 million in the year ended

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December 31, 2013 from $620.2 million in the year ended December 31, 2012, mainly due to a decrease in export sales volumes of 42.5%. As a percentage of steel segment revenues, selling and distribution expenses increased to 9.7% in the year ended December 31, 2013 from 8.7% in the year ended December 31, 2012. The increase was due to the decrease in sales prices for all of our products.

Taxes other than income tax decreased by $0.1 million, or 0.2%, to $45.5 million in the year ended December 31, 2013 from $45.6 million in the year ended December 31, 2012. As a percentage of segment revenues, these taxes increased from 0.6% to 0.8%. Property and land taxes decreased by $0.8 million, or 2.1%, to $36.7 million in the year ended December 31, 2013 from $37.5 million in the year ended December 31, 2012, mainly due to the ruble depreciation against the U.S. dollar of 2.4%.

Allowance for doubtful accounts decreased by $19.7 million, or 118.0%, resulting in a $3.0 million income in the year ended December 31, 2013 from a $16.7 million loss in the year ended December 31, 2012, due to the decrease in outstanding doubtful accounts as of December 31, 2013, as well as the collection of certain accounts receivable provided for as of December 31, 2012.

Provision for amounts due from related parties decreased by $196.6 million, or 21.9%, to $699.8 million in the year ended December 31, 2013 from $896.4 million in the year ended December 31, 2012, due to the following:

- in 2012, based on our future expectations in relation to the recoverability of trade and other balances from the related metallurgical plants and fair value of the assets pledged as security under the Estar Loan Agreement we made a provision of $896.4 million for these balances; and

- in 2013, based on our estimates of future cash inflows of trade balances and prepayments from the related metallurgical plants and Metallurg-Trust we recognized a provision of $699.8 million for these balances.

Loss on write off of property, plant and equipment decreased by $3.2 million, or 78.0%, to $0.9 million in the year ended December 31, 2013 from $4.1 million in the year ended December 31, 2012, due to the decrease in the amount of idled property, plant and equipment written off by our steel production subsidiaries.

Impairment of goodwill and long-lived assets decreased by $426.0 million, or 70.1%, to $181.9 million in the year ended December 31, 2013 from $607.9 million in the year ended December 31, 2012, due to the following:

- in 2012, we recognized impairment of goodwill, long-lived assets and mineral license in relation to our Romanian subsidiaries, Mechel Nemunas, Cognor Stahlhandel and Donetsk Electrometallurgical Plant of $583.1 million and Kazakhstansky Nickel Mining Company of $23.9 million due to the decrease in commodity prices, the weakness of the European market and the lack of positive prospects for the recovery of the European market; and

- in 2013, we recognized impairment of goodwill in relation to our trading subsidiaries WNL Staal and Ramateks of $4.5 million due to the continuing decrease in prices for commodities and the lack of positive prospects for the recovery of the European market and impairment of long-lived assets in relation to Donetsk Electrometallurgical Plant of $177.4 million as a result of reduction the carrying amount of the assets to their fair value.

General, administrative and other expenses decreased by $25.3 million, or 9.4%, to $244.8 million in the year ended December 31, 2013 from $270.1 million in the year ended December 31, 2012, and increased as a percentage of segment revenues to 4.6% in the year ended December 31, 2013 from 3.8% in the year ended December 31, 2012. Payroll and related social taxes decreased by $29.1 million, or 19.5%, to $120.3 million in the year ended December 31, 2013 from $149.4 million in the year ended December 31, 2012, mainly due to the disposal of the Romanian subsidiaries in February 2013. Social expenses (including pension expenses) decreased by $7.4 million, or 41.6%, to $10.4 million in the year ended December 31, 2013 from $17.8 million in the year ended December 31, 2012, mainly due to the disposal of the Romanian subsidiaries in February 2013. Rent and maintenance, business travel expenses, bank charges and office expenses decreased by $4.7 million, or 10.2%, to $41.5 million in the year ended December 31, 2013 from $46.2 million in the year ended December 31, 2012, mainly due to the cost-cutting measures implemented by our management and the disposal of the Romanian subsidiaries. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services decreased by $2.5 million, or 16.4%, to $12.7 million in the year ended December 31, 2013 from $15.2 million in the year ended December 31, 2012, due to decreased involvement of external consultants in 2013. Other administrative and operating expenses increased by $18.5 million, or 44.7%, to $59.9 million in the year ended December 31, 2013 from $41.5 million in the year ended December 31, 2012, mainly due to an accrual of a $4.4 million provision for litigation related to the Romanian subsidiaries.

Power segment

In 2013 and 2012, selling and distribution expenses consisted almost entirely of electricity transmission costs incurred by our Kuzbass Power Sales Company for the usage of the power grid through which electricity is distributed to end consumers. These costs are incurred by all power distribution companies pursuant to agreements between the distribution company and the grid operator. These expenses increased by $2.8 million, or 1.1%, to $254.1 million in the year ended December 31, 2013 from $251.3 million in the year ended December 31, 2012.

Taxes other than income tax decreased by $0.3 million, or 13.6%, to $1.9 million in the year ended December 31, 2013 from $2.2 million in the year ended December 31, 2012, mainly due to a decrease in environmental payments by Southern Kuzbass Power Plant.

Allowance for doubtful accounts increased by $9.1 million to $15.8 million in the year ended December 31, 2013 from $6.7 million in the year ended December 31, 2012, mainly due to the increase in allowance for trade receivables from the related metallurgical plants.

In 2013, as a result of the goodwill impairment test, we recognized an impairment loss associated with Kuzbass Power Sales Company of $28.1 million for the year ended December 31, 2013. The goodwill impairment test is made on an annual basis. No impairment loss was recognized in 2012. See note 24 to the consolidated financial statements.

General, administrative and other expenses increased by $4.0 million, or 27.8%, to $18.4 million in the year ended December 31, 2013 from $14.4 million in the year ended December 31, 2012, due to lower expenses in the year ended December 31, 2012 as a result of gain of $3.3 million recognized in 2012 related to the reversal of the environmental risks at Southern Kuzbass Power Plant in 2011.

Operating loss

Operating loss increased by $59.2 million, or 9.9%, to $656.8 million in the year ended December 31, 2013 from $597.6 million in the year ended December 31, 2012. Operating loss as a percentage of consolidated revenues increased to 7.7% in the year ended December 31, 2013 from 5.6% in the year ended December 31, 2012, mainly due to the decrease in gross margin in the mining segment and losses from provision for amounts due from related parties in the steel and mining segments as explained above.

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The table below sets out operating (loss) income by segment, including as a percentage of segment revenues.

Operating (Loss) Income by Segment	Year Ended December 31, 2013 Amount	Year Ended December 31, 2013 % of Segment Revenues	Year Ended December 31, 2012 Amount	Year Ended December 31, 2012 % of Segment Revenues
	(In thousands of U.S. dollars, except for percentages)			
Mining segment	211,895	6.7%	726,565	19.3%
Steel segment	(853,059)	(15.9)%	(1,403,055)	(19.7)%
Power segment	(12,644)	(1.1)%	31,314	2.6%
Elimination of intersegment unrealized (profit) loss[1]	(2,949)		47,580	
Consolidated operating loss	(656,757)		(597,596)	

(1) Our management evaluates the performance of our segments before the elimination of unrealized profit in inventory balances of segments that was generated by the segments but not recognized as profit in our consolidated financial statements until the sale of such inventories to third parties. Therefore, we present our segments before such elimination, and such elimination is presented separately. The change in intersegment unrealized profit adjustment in the year ended December 31, 2013 as compared to the year ended December 31, 2012 was due to the decrease in gross margin of our mining segment in 2013.

Mining segment

Mining segment operating income decreased by $514.7 million, or 70.8%, to $211.9 million in the year ended December 31, 2013 from $726.6 million in the year ended December 31, 2012. The operating margin percentage decreased to 6.7% in the year ended December 31, 2013 from 19.3% in the year ended December 31, 2012, mainly due to the decrease in coking coal, anthracite and PCI, coke and iron ore sales prices, the increase in selling and distribution expenses and increase in recognized loss on write off of property, plant and equipment.

Steel segment

Steel segment operating loss decreased by $550.0 million, or 39.2%, to $853.1 million in the year ended December 31, 2013 from $1,403.1 million in the year ended December 31, 2012. The operating margin percentage changed to negative 15.9% in the year ended December 31, 2013 from negative 19.7% in the year ended December 31, 2012, mainly due to the increase in gross profit margin following the disposal of unprofitable Romanian subsidiaries and the factors that negatively affected operating income in 2012, such as recognition of losses from impairment of goodwill and long-lived assets of the Romanian subsidiaries and a provision in relation to the recoverability of trade and other balances due from the related metallurgical plants.

Power segment

Power segment operating (loss) income changed by $43.9 million, or 140.3%, to an operating loss of $12.6 million in the year ended December 31, 2013 from an operating income of $31.3 million in the year ended December 31, 2012. The operating margin percentage changed to negative 1.1% in the year ended December 31, 2013 from positive 2.6%

in the year ended December 31, 2012, as a result of a $12.8 million provision for amounts due from related parties and impairment of goodwill at Kuzbass Power Sales Company in the amount of $28.1 million.

Other income and expense, net

Other income and expense, net consists of income from equity investees, interest income, interest expense, other (loss) income and foreign exchange (loss) gain. The table below sets forth these costs for the years ended December 31, 2013 and 2012, including as a percentage of revenues.

Other Income and Expense, Net	**Year Ended December 31, 2013**		**Year Ended December 31, 2012**	
	Amount	**% of Revenues**	**Amount**	**% of Revenues**
	(In thousands of U.S. dollars, except for percentages)			
Income from equity investees	3,589	0.0%	475	0.0%
Interest income	7,331	0.1%	70,178	0.7%
Interest expense	(740,601)	(8.7)%	(649,760)	(6.0)%
Other (loss) income, net	(74,571)	(0.9)%	33,103	0.3%
Foreign exchange (loss) gain	(164,768)	(1.9)%	107,541	1.0%
Total	(969,020)	(11.4)%	(438,463)	(4.0)%

Income from equity investees increased by $3.1 million, or 620.0%, to $3.6 million in the year ended December 31, 2013 from $0.5 million in the year ended December 31, 2012. The increase related to our share of income from our equity investment of Port Vanino (see note 8 to the consolidated financial statements).

Interest income decreased by $62.9 million, or 89.6%, to $7.3 million in the year ended December 31, 2013 from $70.2 million in the year ended December 31, 2012. The decrease was mainly due to the fact that in 2012 interest income included interest on the loan provided to the related metallurgical plants in 2011. Based on our estimates of future cash inflows of loan provided, no such interest income was recognized in 2013.

Interest expense increased by $90.8 million, or 14.0%, to $740.6 million in the year ended December 31, 2013 from $649.8 million in the year ended December 31, 2012, due to the increase in weighted average interest rate from 8.2% in the year ended December 31, 2012 to 9.1% in the year ended December 31, 2013.

Other (loss) income changed by $107.7 million, or 325.4%, to a $74.6 million loss in the year ended December 31, 2013 from a $33.1 million income in the year ended December 31, 2012, mainly due to the following:

- in 2012, dividends on investments accounted at cost of $26.0 million. No such dividends received in 2013; and

- in 2013, the disposal of the Romanian subsidiaries of $80.3 million which includes the accumulated currency translation adjustment.

Foreign exchange (loss) gain changed by $272.3 million, or 253.3%, to a loss of $164.8 million in the year ended December 31, 2013 from a gain of $107.5 million in the year ended December 31, 2012. In 2013, the foreign exchange loss was primarily attributable to losses from revaluation of our U.S. dollar-denominated liabilities, including the syndicated loan facilities for refinancing of the acquisition of Yakutugol and our obligation to pay for the shares of Donetsk Electrometallurgical Plant.

Income tax expense

Income tax expense decreased by $163.5 million, or 67.4%, to $79.1 million in the year ended December 31, 2013 from $242.6 million in the year ended December 31, 2012, due to an overall decrease in operating income. Our effective tax rate decreased to 4.9% from 23.4%, due to the increase in loss from continuing operations before income tax.

Net loss from discontinued operations

Net loss from discontinued operations increased by $831.9 million, or 215.4%, to $1,218.1 million in the year ended December 31, 2013 from $386.2 million in the year ended December 31, 2012, mostly due to the recognition of impairment of mineral licenses and long-lived assets of Voskhod Mining Plant and Tikhvin Ferroalloy Plant of $874.8 million.

Net income (loss) attributable to non-controlling interests

Net income (loss) attributable to non-controlling interests changed by $5.3 million, or 1,766.7%, to a $5.0 million income in the year ended December 31, 2013 from a $0.3 million loss in the year ended December 31, 2012. The net income in 2013 attributable to non-controlling interests was due to $14.4 million in income from Tomusinsky Open Pit, $9.0 million in income from Korshunov Mining Plant and $4.6 million in income from Urals Stampings Plant, which was partially offset by $19.2 million in losses attributable to our non-controlling interest in Chelyabinsk Metallurgical Plant and by $5.2 million in losses attributable to our non-controlling interest in Izhstal.

Net loss attributable to shareholders of Mechel

Net loss attributable to our shareholders increased by $1,263.4 million, or 75.9%, to $2,928.0 million in the year ended December 31, 2013 from $1,664.6 million in the year ended December 31, 2012, due to the increase in operating loss in our mining and steel segments as a result of recognition of losses from impairment of goodwill and long-lived assets as well as to the provision for amounts due from the related metallurgical plants and the increase in losses from discontinued operations.

Net loss attributable to common shareholders of Mechel

Net loss attributable to our common shareholders increased by $1,184.5 million, or 67.9%, to $2,928.1 million in the year ended December 31, 2013 from $1,743.6 million in the year ended December 31, 2012. This change was lower than the decrease in net loss attributable to all of our shareholders due to the $78.9 million decrease in the payment of dividends on preferred shares.

Liquidity and Capital Resources

Capital requirements

We expect that our principal capital requirements in the near future will be for financing the repayment of maturing debt and high priority and regular maintenance capital expenditures.

Our business is heavily dependent on machinery for the production of steel and steel products, as well as investments in our mining operations. Investments to maintain and expand production facilities are, accordingly, an important priority and have a significant effect on our cash flows and future results of operations. We intend to focus our capital spending on the implementation of projects that we view as key to carrying out our business strategy and improve free cash flow. See Item 4. Information on the Company Capital Investment Program for the objectives of our capital investment program and its details. Over the next three years, i.e., 2015-2017, we expect our capital expenditures on our metals production facilities to total approximately $189.8 million, approximately 69% of which will be in 2015-2016, and approximately 31% in 2017. We intend to spend approximately $1.7 billion for the development of the Elga coal deposit during the period from 2015 to 2017. We intend to finance our capital investments with cash flow from operations and external long-term financing sources. The funds for the development of the Elga coal deposit will be sourced from the project financing received from Vnesheconombank. See Item 10. Additional Information Material Contracts Project Finance Credit Facility for Elgaugol from Vnesheconombank.

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Our total outstanding debt as of December 31, 2014 and 2013 was $6,845.1 million (of which $6,678.5 million was classified as short-term debt) and $8,991.4 million, respectively. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for information regarding the type of financial instruments, the maturity profile of debt, currency and interest rate structure.

In 2014 and 2013, we paid dividends of $0.1 million and $0.2 million, respectively, all of which were paid on preferred shares. See Item 8. Financial Information Dividend Distribution Policy for a description of our dividend policy.

Capital resources

Our strategy has shifted from growing our business through acquisition and expansion opportunities to extracting the maximum value from our existing core assets. We now intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability. We may also consider further selective disposal of assets which do not fit our main strategic directions.

Historically, our major sources of cash have been cash generated from operations, bank loans and public debt, and we expect these sources will continue to be our principal sources of cash in the future. For financing of our capital investment program we have also relied on financings secured by foreign export credit agency guarantees. We may also raise cash through equity and debt financings in international capital markets. We do not use off-balance sheet financing arrangements.

The table below summarizes our cash flows for the periods indicated.

	Year Ended December 31,		
	2014	2013	2012
	(In thousands of U.S. dollars)		
Net cash provided by operating activities	744,627	326,570	1,310,596
Net cash used in investing activities	(472,296)	(179,589)	(839,137)
Net cash used in financing activities	(438,489)	(162,071)	(792,006)

Net cash provided by operating activities was $744.6 million in the year ended December 31, 2014 as compared to net cash provided by operating activities of $326.6 million in the year ended December 31, 2013 and of $1,310.6 million in the year ended December 31, 2012. The operating cash inflows were derived from payments received from sales of our mining, steel and power products, reduced by cash disbursements for direct labor, raw materials and parts, selling, distribution and operating expenses, interest expense and income taxes.

Net cash used in operating activities before changes in working capital items was $147.0 million in the year ended December 31, 2014. Net operating cash outflow of discontinued operations amounted to $20.5 million. Below we analyze major changes in working capital items which in the aggregate accounted for $912.1 million in cash provided by operating activities, resulting in net cash provided by operating activities of $744.6 million.

Working capital items accretive to operating cash flows:

a decrease in inventories of $400.9 million due to a significant decrease in finished goods and raw materials held in stock at the warehouses of Mechel Service Global, Mechel Carbon, Southern Kuzbass Coal Company and Chelyabinsk Metallurgical Plant as of December 31, 2014 as compared to December 31, 2013. The main reason for the change in the stock level was the decrease in production volumes across all our segments as a result of the continuation of weak demand in the European and Russian markets;

an increase in accrued taxes and other liabilities of $517.0 million due to delays in payments;

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- a decrease in accounts receivable of $53.6 million primarily due to the decrease in sales of Mechel Service, Korshunov Mining Plant, Mechel Carbon and Mechel Trading;

- a decrease in other current assets of $21.3 million primarily due to a decrease in VAT and other taxes receivable of Southern Kuzbass Coal Company and Mechel Service Global and repayment of accounts receivable to Romanian companies disposed of in 2013;

- an increase in advances received of $4.5 million; and

- an increase in accounts payable of $3.2 million.

Working capital items reducing operating cash flows:

- a decrease in unrecognized income tax benefits of $30.4 million; and

- net change in balances with related parties of $58.2 million primarily due to transactions with the related metallurgical plants.

Net cash used in operating activities before changes in working capital items was $65.2 million in the year ended December 31, 2013. Net operating cash inflow of discontinued operations amounted to $39.8 million. Below we analyze major changes in working capital items which in the aggregate accounted for $352.0 million in cash provided by operating activities, resulting in net cash provided by operating activities of $326.6 million.

Working capital items accretive to operating cash flows:

- a decrease in inventories of $486.6 million due to a significant decrease in finished goods and raw materials held in stock at the warehouses of Mechel Service Global, Chelyabinsk Metallurgical Plant and Mechel Trading as of December 31, 2013 as compared to December 31, 2012. The main reason for the change in the stock level was the decrease in production volumes across all our segments as a result of the continuation of weak demand in the European and Russian markets;

- an increase in unrecognized income tax benefits of $61.2 million;

- an increase in accounts payable of $114.2 million due to a significant growth in accounts payable of Chelyabinsk Metallurgical Plant, Mecheltrans, Southern Kuzbass Coal Company, Mechel Energo, Metallurgshakhtspetsstroy and Yakutugol which was partly offset by the decrease in accounts payable of trading houses;

- an increase in accrued taxes and other liabilities of $91.1 million due to an increase in taxes payable for the year ended December 31, 2013;

- a decrease in accounts receivable of $63.1 million primarily due to a decrease in sales of Mechel Service, Korshunov Mining Plant, Mechel Carbon and Mechel Trading and the increase in sales of steel products by Chelyabinsk Metallurgical Plant; and

- a decrease in other current assets of $26.3 million primarily due to a decrease in VAT and other taxes receivable of Yakutugol and decrease in advances issued of Mechel Vtormet and Southern Kuzbass Coal Company in the year ended December 31, 2013.

Working capital items reducing operating cash flows:

- net change in balances with related parties of $481.1 million primarily due to transactions with the related metallurgical plants; and

- a decrease in advances received of $9.4 million of Mechel Trading and Mechel Service.

Net cash provided by operating activities before changes in working capital items was $680.1 million in the year ended December 31, 2012. Net operating cash inflow of discontinued operations amounted to $45.3 million. Below we analyze major changes in working capital items which in the aggregate accounted for $585.2 million in cash provided by operating activities, resulting in net cash provided by operating activities of $1,310.6 million.

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Working capital items accretive to operating cash flows:

- a decrease in inventories of $629.7 million due to a significant decrease in finished goods and raw materials held in stock at the warehouses of Mechel Service Global, Chelyabinsk Metallurgical Plant, Mechel Carbon and Mechel Trading as of December 31, 2012 as compared to December 31, 2011. The main reason for the change in the stock level was the decrease in production volumes across all our segments as a result of the continuation of weak demand in the European and Russian markets;

- a decrease in other current assets of $69.0 million primarily due to a decrease in VAT and other taxes receivable of Yakutugol and Chelyabinsk Metallurgical Plant in the year ended December 31, 2012;

- an increase in accounts payable of $56.4 million due to a significant growth in accounts payable of Chelyabinsk Metallurgical Plant, Mecheltrans and Southern Kuzbass Coal Company which was partly offset by the decrease in accounts payable of trading houses;

- an increase in accrued taxes and other liabilities of $26.3 million due to an increase in taxes payable, wages and salaries and interest accrued for the year ended December 31, 2012;

- a decrease in accounts receivable of $41.9 million primarily due to the decrease in sales of mining products by Mechel Carbon and Mechel Mining Trading House and the decrease in sales of steel products by Mechel Service Global;

- dividends in the amount of $26.0 million received from investments accounted at cost; and

- an increase in unrecognized income tax benefits of $17.6 million.

Working capital items reducing operating cash flows:

- net change in balances with related parties of $224.9 million primarily due to transactions with the related metallurgical plants; and

- a decrease in advances received of $56.7 million of Mechel Trading and Mechel Service Global.

Net cash used in investing activities was $472.3 million in the year ended December 31, 2014 as compared to net cash used in investing activities of $179.6 million in the year ended December 31, 2013 and of $839.1 million in the year ended December 31, 2012. Substantially all of the cash used in investing activities in the years ended December 31, 2014, 2013 and 2012 related to capital expenditures and the acquisition of businesses. Capital expenditures relating to purchases of property, plant and equipment and purchases of mineral licenses amounted to $443.7 million, $552.4 million and $950.0 million in the years ended December 31, 2014, 2013 and 2012, respectively. Expenditures related to the acquisition of businesses and investments amounted to $85.2 million, $728.1 million and $57.0 million in the years ended December 31, 2014, 2013 and 2012, respectively. Cash provided by investing activities related to disposal of businesses and investments in the amount of $33.8 million in the year ended December 31, 2014 as compared to $1,106.8 million in the year ended December 31, 2013. Cash provided by investing activities in the year ended December 31, 2012 was comprised of proceeds from short-term loans issued in the amount of $217.8 million.

Net cash used in financing activities was $438.5 million in the year ended December 31, 2014 as compared to net cash used in financing activities of $162.1 million in the year ended December 31, 2013 and of $792.0 million in the year ended December 31, 2012. We received debt proceeds of $1,816.0 million and repaid debt of $2,185.3 million in the year ended December 31, 2014 as compared to received debt proceeds of $2,958.7 million and repaid debt of $2,935.4 million in the year ended December 31, 2013, and received debt proceeds of $3,934.6 million and repaid debt of $4,191.9 million in the year ended December 31, 2012.

Liquidity

We had cash and cash equivalents of $70.8 million, $272.9 million and $290.2 million as of December 31, 2014, 2013 and 2012, respectively. Our cash and cash equivalents were held in rubles (23.3%, 7.9% and

59.8% as of December 31, 2014, 2013 and 2012, respectively), U.S. dollars (45.3%, 77.6% and 27.3% as of December 31, 2014, 2013 and 2012, respectively), euros (23.1%, 7.1% and 5.0% as of December 31, 2014, 2013 and 2012, respectively) and certain other currencies of the CIS and Eastern Europe.

The unused portion under the group s credit facilities as of December 31, 2014, 2013 and 2012 was $33.4 million, $280.8 million and $580.9 million, respectively. As of December 31, 2014, 2013 and 2012, the group s credit facilities provided aggregated borrowing capacity of $6,878.5 million (of which $2,381.0 million is repayable during 2015 and $4,297.5 million represented long-term debt that was reclassified as short-term liabilities as of that date because of covenant violations), $9,272.3 million and $9,918.5 million, respectively. The group s borrowings under these credit facilities carried a weighted average interest rate of approximately 10.9%, 9.4% and 8.2% as of December 31, 2014, 2013 and 2012, respectively. See Restrictive Covenants for further information about our covenant violations.

The following table summarizes our liquidity as of December 31, 2014, 2013 and 2012.

Estimated Liquidity	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
		(In millions of U.S. dollars)	
Cash and cash equivalents	70.8	272.9	290.2
Amounts available under credit facilities	33.4	280.8	580.9
Total estimated liquidity	104.2	553.7	871.1

Short-term debt (short-term borrowings and current portion of long-term debt) increased by $5,200.4 million, or 351.8%, to $6,678.5 million as of December 31, 2014 from $1,478.2 million as of December 31, 2013, as a result of the reclassification of long-term debt in the amount of $4,297.5 million as short-term liabilities as of December 31, 2014 as a result of covenant violations, and also as a result of the weakening of the ruble against the U.S. dollar.

Long-term debt net of current portion decreased by $7,346.7 million, or 97.8%, to $166.5 million as of December 31, 2014 from $7,513.3 million as of December 31, 2013. The decrease was primary attributable to the weakening of the ruble against the U.S. dollar and to the decrease in the amount of ruble-denominated loans, as well as reclassification of $4,297.5 million of long-term debt as short-term liabilities as of December 31, 2014 due to covenant violations.

Our working capital remained negative and decreased by $6,522.5 million, or 848%, to $7,291.3 million as of December 31, 2014 from $768.8 million as of December 31, 2013. The main reasons for the decrease in working capital were (i) the reclassification of long-term debt in the amount of $4,297.5 million as short-term liabilities due to covenant violations, (ii) the decrease in inventory in the amount of $767.2 million as a result of a reduction in production volumes due to the weakness of the European and Russian markets, and (iii) the increase in accrued expenses and other current liabilities in the amount of $467.9 million due to delays in payments.

Outlook for 2015

Our objective is to ensure that our group meets its liquidity requirements and payment obligations to creditors, continues capital expenditures, restructures and services its debt, and continues as a going concern. To accomplish that, we will continue to seek the restructuring of our existing indebtedness in order to alleviate the pressure on our cash flows. This will require aligning the servicing of the debt with operating cash flows by extending grace periods and maturities, converting foreign currency debt into rubles, reducing interest rates and amending the covenant requirements. We also intend to ask for state support as an additional source of funding or to reduce other borrowing costs.

We believe we will not be able to obtain significant new borrowings in the near future (other than the state support discussed above); however we may consider certain divestments and invite financial or strategic

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investors into our businesses in order to reduce the debt burden. We believe that cash generated from operations, subject to successful completion of debt restructuring, improved market conditions and reduced costs, as well as foreign currency gains, will be sufficient to meet our capital expenditures and debt payments in 2015. Furthermore, we believe that we have the flexibility in deferring our non-critical capital expenditures and in managing our working capital to provide further financial flexibility as needed.

Debt Financings in 2014

During the course of 2014, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In July 2014, Yakutugol and Southern Kuzbass Coal Company entered into amendments to their credit facility agreements with VTB Bank to refinance debt in the total amount of 15.8 billion rubles (approximately $281.3 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018.

In May 2014, Mechel entered into an amendment to its credit facility agreement with VTB Bank to refinance debt in the amount of 40.0 billion rubles (approximately $711.0 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. VTB Bank also provided an additional loan for redemption of ruble bonds in the amount of up to 3.8 billion rubles (approximately $67.3 million as of December 31, 2014).

In May 2014, Southern Kuzbass Coal Company entered into an amendment to its facility agreement with VTB Bank to refinance debt in the amount of 1.6 billion rubles (approximately $28.4 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. The interest rate under the facility agreement is set at MosPrime plus a margin of 5.7% per year.

In March 2014, our subsidiary Elgaugol signed two loan agreements for an aggregate amount of $2.5 billion with Vnesheconombank for the project financing of the development of the Elga coal deposit. The loans have a tenor of 13.5 years, with a repayment grace period of 3.5 years. As of December 31, 2014, $20.9 million was drawn under the facility.

Debt Financings in 2013

During the course of 2013, we continued our refinancing efforts through extending some of our existing credit facilities, amending financial covenants, including agreeing with the lenders on a covenant holiday for Mechel and Mechel Mining s ratios of net borrowings to EBITDA for the relevant periods ending in December 31, 2013 and June 30, 2014. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of $1.0 billion. The amendments provide that the loan, which was entering the repayment phase in December 2013, will be repayable in equal monthly installments until December 2016 following a grace period of 12 months ending in December 2014.

In December 2013, several of our subsidiaries and Sberbank entered into separate amendments to their loan agreements totaling 26.6 billion rubles (approximately $808 million) for the restructuring and refinancing of existing indebtedness and working capital. Of this amount, Chelyabinsk Metallurgical Plant accounted for 21.5 billion rubles (approximately $655.9 million), and Mechel Trading, Izhstal, Southern Kuzbass Coal

Company, Yakutugol, Korshunov Mining Plant and Bratsk Ferroalloy Plant accounted for, in the aggregate, 5.1 billion rubles (approximately $156.2 million). The facilities totaling 13.4 billion rubles (approximately $410.7 million) have a tenor of five years with a repayment grace period until March 28, 2015.

In October 2013, our subsidiary Elgaugol entered into a $150.0 million bridge facility with Vnesheconombank with a tenor of six months for the development of the Elga coal complex. As of December 31, 2014, the overdue principal amounted to $146.4 million. See Item 10. Additional Information Material Contracts Project Finance Credit Facility for Elgaugol from Vnesheconombank.

In August 2013, Chelyabinsk Metallurgical Plant entered into a revolving credit facility with Alfa-Bank for a total amount of $150.0 million. The facility was provided for working capital financing and was fully drawn as of December 31, 2013. In March 2014, the credit facility was amended providing for full repayment of the loan in five equal weekly installments, the last installment falling due not later than April 25, 2014. In April 2014, the facility was fully repaid.

In April 2013, Mechel entered into a 40.0 billion ruble (approximately $1.3 billion) credit facility agreement with VTB Bank for a period of five years. The facility allows a 15-month grace period and is to be repaid in equal installments on a quarterly basis. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within our group (including redemption of ruble bonds). In May 2014, we signed amendments with VTB Bank to refinance the facility, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2013, our subsidiaries Beloretsk Metallurgical Plant and Urals Stampings Plant entered into revolving credit facilities with Gazprombank for a total amount of 3.3 billion rubles (approximately $106.9 million). The purpose of the facilities is working capital financing. The term of the facilities is three years with the term of each tranche of up to 24 months. The facilities provide for a bullet repayment.

In April 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of $889.0 million: $400.0 million was made available to Southern Kuzbass Coal Company and $489.0 million was made available to Yakutugol, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt provided by Gazprombank.

In March and April 2013, our subsidiary Mecheltrans entered into two non-revolving credit facilities with Moscow Credit Bank for a total amount of $88 million for a period of one year each with a bullet repayment. The facilities are provided for the purpose of working capital financing. In May 2013, the facilities amount was increased to $105 million. In April 2014, we extended the maturity of the facilities until December 2014 and replaced the borrower with Mechel Service. In December 2014, the maturity of the facilities was extended until February 2016.

Debt Financings in 2012

During the course of 2012, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale, UniCredit, JSCB Rosbank and ABN AMRO Bank N.V. entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of

$1.0 billion. The amendments provided an extension of repayment grace period under the loan until December 2013. The loan was subsequently amended and restated in December 2013.

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In December 2012, following the repayment of the initial drawdown under a revolving credit line extended to Mechel Trading by Sberbank under a long-term framework agreement entered into in October 2011, Mechel Trading re-drew $100.0 million under this credit line. In December 2013, this facility was refinanced for a further period of five years.

In October 2012, Southern Kuzbass Coal Company obtained four non-revolving credit lines for five years from Sberbank for a total amount of 24 billion rubles (approximately $772.3 million) with a three-year grace period. The purpose of the credit lines is working capital financing. As of December 31, 2013, the credit lines were fully drawn.

In April 2012, we extended our existing loans from VTB Bank for Yakutugol and Southern Kuzbass Coal Company in the total amount of approximately $460.0 million for a period of up to three years. In July 2014, Yakutugol and Southern Kuzbass Coal Company signed amendments to the loan agreements, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of $500 million for a period of up to five years for the purpose of funding operational activities and refinancing our short-term debt.

In April 2012, we completed placement of our non-convertible interest-bearing BO-05, BO-06, BO-07, BO-11 and BO-12 series exchange bonds in an aggregate principal amount of 15.0 billion rubles (approximately $506.1 million). The proceeds were used to refinance some of our short-term debt. In April 2013, the bonds were redeemed for the entire amount.

In February 2012, we completed placement of our non-convertible interest-bearing BO-04 series exchange bonds in an aggregate principal amount of 5.0 billion rubles (approximately $167.3 million). The proceeds were used to refinance our short-term debt. In February 2014, this series was redeemed for the total amount of 4.254 billion rubles. In February 2015, this series was fully repaid.

In January 2012, Mechel Trading refinanced its existing loans with Alfa-Bank through a new revolving line in the amount of $150.0 million with the ability to draw tranches and with the final repayment to be made not later than October 2016. The proceeds were used for working capital and trade financing. The facility was fully repaid in September 2013.

Debt Financings in 2011

During the course of 2011, we obtained the following major debt financings. See Description of Certain Indebtedness and Russian bonds for a summary description of the terms of these facilities.

In October 2011, Mechel Trading obtained a revolving yearly renewable credit line from Sberbank in the amount of $130.0 million for three years for the purposes of working capital, intra-group and pre-export financing. The credit line was made available under the long-term framework agreement with Sberbank. The initial drawdown was fully repaid in October and December 2012 to allow further drawdowns.

In October 2011, our subsidiary Mechel Energo obtained a credit line for two years from Gazprombank in the amount of 3.0 billion rubles (approximately $102.1 million). The credit line was provided for the purpose of financing our day-to-day operations. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 5.0 billion rubles. As of December 31, 2014, the amount outstanding under the facility was $88.9 million.

In October 2011, our subsidiary Mechel Trading obtained a credit facility in the amount of $180.0 million to refinance a portion of our short-term loans. The loan facility has been provided by syndicate of banks, ING Bank N.V., Barclays Capital Inc. and ZAO Unicredit Bank, for a period of three years with 18-month grace period. In May 2014, the facility was fully repaid.

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In June 2011, Yakutugol obtained a non-revolving credit line for five years from Eurasian Development Bank in the amount of 2.8 billion rubles (approximately $95.3 million) with a 24-month grace period for the sole purpose of financing the development of the Elga coal deposit. As of December 31, 2014, the amount outstanding under the facility was 2.1 billion rubles (approximately $37.3 million).

In June 2011, we completed placement of our non-convertible interest-bearing bonds of the 17th, 18th and 19th series in the aggregate amount of 15.0 billion rubles. The proceeds were used to refinance our short-term debt.

In March 2011, our subsidiary Chelyabinsk Metallurgical Plant obtained a revolving credit line for a period of 1.5 years from Gazprombank in the amount of 6.0 billion rubles (approximately $204.2 million) for the purpose of working capital financing. In September 2011, the available limit was increased up to 11.0 billion rubles (approximately $374.3 million) and the period was extended up to five years. In May 2012, we extended the credit line for up to five years and the amount of the credit line was reduced to 6.0 billion rubles. As of December 31, 2014, the amount outstanding under the facility was $106.7 million.

In March 2011, our subsidiary Mechel Service obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately $102.1 million) for a period of 1.5 years. The purpose of the credit line is working capital financing. In October 2011, we agreed with the lender to increase the amount of the credit line up to 4.0 billion rubles (approximately $136.1 million) and extend its period up to two years. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 11.0 billion rubles. As of December 31, 2014, the amount outstanding under the facility was $195.5 million.

In February 2011, our subsidiary Mechel Trading House obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately $102.1 million) for a period of 1.5 years. The purpose of the loan is to finance the working capital of the company. In October 2011, the amount of the credit line was increased up to 4.0 billion rubles (approximately $136.1 million) and the term was extended for a period of up to two years. In April 2012, the parties agreed to terminate the facility.

In February 2011, we completed two placements of our non-convertible interest-bearing bonds of the 15th and 16th series in the aggregate amount of 10.0 billion rubles. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. In February 2014, the 15th and 16th series were redeemed for the total amount of 8.149 billion rubles.

On February 7, 2011, our subsidiary Southern Kuzbass Coal Company obtained a credit line in the amount of 6.2 billion rubles (approximately $211.0 million) to finance the construction of the second area at Sibirginskaya Underground. The loan agreement has been provided by TransCreditBank OAO (now VTB Bank) for a period of five years with an amortized monthly repayment starting on February 2014 until December 2015 and is to be repaid in full by February 6, 2016. In May 2014, we signed amendments to the loan agreement to extend the repayment grace period until April 2015 and the final maturity until April 2018. As of December 31, 2014, the amount outstanding under the facility was 1.6 billion rubles (approximately $28.4 million).

Debt Financings in 2010

During the course of 2010, we obtained the following major debt financings. See Description of Certain Indebtedness, Russian bonds and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2010, we obtained a credit line totaling 10 billion rubles (approximately $329.3 million) from VTB Bank. In November 2011, the credit line was increased up to 13.0 billion rubles (approximately $442.2 million). In April 2013, this line was increased to 40.0 billion rubles (approximately $1.3 billion). As of December 31, 2014, the facility was fully drawn.

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In October 2010, our subsidiary Chelyabinsk Metallurgical Plant obtained a credit line totaling 15.0 billion rubles (approximately $493.9 million) from Sberbank. In December 2013, we signed an amendment to the loan agreement by extending the term of the facility by five years with a repayment grace period until March 30, 2015. As of December 31, 2014, the facility was fully drawn.

In September 2010, we signed a loan agreement in the amount of $219.4 million and 192 million to finance a universal rolling mill installation project at our subsidiary Chelyabinsk Metallurgical Plant. The loan facility has been provided by BNP Paribas, Gazprombank and UniCredit. As of December 31, 2014, the amount outstanding under the facility was $342.8 million.

In September 2010, we refinanced our New Oriel Resources and New Yakutugol facilities, which were executed in 2009, with a pre-export facility in the amount of $2.0 billion.

In September 2010, we completed two placements of our non-convertible interest-bearing bonds of the 13th and 14th series in the aggregate amount of 10.0 billion rubles. The proceeds were used to fund the working capital of our group and to refinance existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group.

In April 2010, we completed placement of our non-convertible interest-bearing bonds of BO-03 series in the aggregate amount of 5.0 billion rubles. The proceeds were used to fund the working capital of our group and to refinance existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. In April 2013, this series was fully repaid.

In March 2010, we completed placement of our non-convertible interest-bearing bonds of BO-02 series in the aggregate amount of 5.0 billion rubles. The proceeds were used to fund the working capital of our group and to refinance existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. In March 2013, this series was fully repaid.

Restrictive Covenants

Almost all of our loan agreements contain a number of covenants and restrictions. Such covenants and restrictions include, but are not limited to, various financial ratios, limitations on amount of debt (including indebtedness of certain companies within our group), minimum value of shareholder equity, various information and certain other covenants, as well as acceleration and cross-default provisions. The covenants also include limitations on the amount of dividends on our common and preferred shares, and amounts that can be spent for capital expenditures, new investments and acquisitions. Unless a breach is remedied or a waiver is obtained, a breach of such covenants and restrictions generally permits lenders to demand accelerated repayment of principal and interest under their respective loan agreements. In addition, in the event of a payment default or the violation of certain other covenants and restrictions, creditors under other loan agreements can demand accelerated repayment of principal and interest under such other loan agreements pursuant to the cross-default provisions in such other agreements. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have a substantial amount of outstanding indebtedness with restrictive financial covenants.

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The table below sets out the requirements of our most significant restrictive debt covenants and the actual ratios/amounts as of December 31, 2014.

Restrictive Covenant	Requirement	Actual as of December 31, 2014
Mechel s Adjusted Shareholder Equity	Shall be greater than or equal to $3.0 billion	$2.6 billion
Mechel s Net Borrowings to EBITDA ratio	Shall not exceed 10.0:1	10.3:1-10.4:1
Mechel s EBITDA to Net Interest Expense ratio	Shall not be less than 1.0:1-1.2:1	0.8:1-0.9:1
Mechel s Net Borrowings	Shall not exceed $10.5-$11.0 billion	$6.8-$6.9 billion

As of December 31, 2014, Mechel Mining s financial covenants were not tested.

As of December 31, 2014, we were in breach of a number of financial covenants contained in the group s loan agreements. In particular, a number of our loan agreements required Mechel to maintain a Net Borrowings to EBITDA ratio not exceeding 10.0:1 (whereas the actual ratio as of December 31, 2014 was 10.3:1-10.4:1), an EBITDA to Net Interest Expense ratio of not less than 1.0:1-1.2:1 (whereas the actual ratio as of December 31, 2014 was 0.8:1-0.9:1), and an Adjusted Shareholder Equity of at least $3.0 billion (whereas the actual amount as of December 31, 2014 was $2.6 billion). Such loan agreements include, but are not limited to, the credit facility for Mechel from VTB Bank, the Universal Rolling Mill Facility Agreement for Chelyabinsk Metallurgical Plant from BNP Paribas, Gazprombank and UniCredit, the credit facility for Mechel Trading from Sberbank and the credit facility for Chelyabinsk Metallurgical Plant from Sberbank.

As of December 31, 2014 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the breaches of the financial covenants under the applicable loan agreements.

In addition, as of December 31, 2014, we were in breach of a number of non-financial covenants under most of our credit facilities, including but not limited to facilities from VTB Bank, Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements. Such covenant breaches include, among others, the violation of negative pledge restrictions, the breach of maximum thresholds for unpaid liabilities and the existence of dispute resolution proceedings against various companies of the group with claims exceeding permitted thresholds.

Finally, as of December 31, 2014, we failed to pay scheduled principal and interest amounts within the prescribed grace periods under most of our loans, including but not limited to loans from VTB Bank, Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements, and such amounts exceeded permitted thresholds.

As of December 31, 2014 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the failure to pay the amounts due and the breaches of the non-financial covenants under the applicable loan agreements.

The failure to pay the scheduled principal and interest amounts as described above, as well as the breach of other covenants in our loan agreements, which were not remedied by us or waived by our creditors, permit the creditors under those loan agreements to accelerate the payment of principal and interest under those loan agreements, as well as trigger cross-default provisions under a number of other facilities, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans. For a more detailed description of the current terms of our loan agreements, see Description of Certain Indebtedness and Item 10. Additional Information Material Contracts.

As of December 31, 2014, VTB Bank requested accelerated repayment of amounts due under its respective loan agreements. The amounts accelerated by VTB Bank remain unpaid. We are currently in litigation with VTB Bank. See Item 8. Financial Information Litigation Debt litigation.

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The failure to pay amounts due, the non-compliance with financial and non-financial covenants and the triggering of the cross-default provisions resulted in the reclassification of our group s long-term debt into short-term liabilities in the amount of $4,297.5 million as of December 31, 2014.

For a more detailed description of the existing payment defaults, breaches of covenants and restrictions, as well as other matters, see Item 13. Defaults, Dividend Arrearages and Delinquencies.

Our ability to meet the debt covenants has been estimated on the basis of our short-term budgets and long-term projection (the **Projection**) of the company. The Projection combines production plans by entities, key products and cost items price dynamics, maintenance and project capital investment program, loans portfolio and repayment schedule and other budgeted and projected items. It includes income and cash flow statements both on separate entities and consolidated level which is being used for purposes of debt covenants calculation. The Projection is prepared using assumptions that comparable market participants would use.

To forecast key product prices, exchange rates dynamics and inflation rates we use a wide variety of sources including the following institutions: Ministry of Economic Development of the Russian Federation, leading investment banks, AME, CRU, Metal Expert, McCloskey, RasMin, Metal Bulletin, Oxford Economics along with our own estimates.

As of December 31, 2014, we projected the following covenant ratios for the forthcoming six-month and 12-month periods, which we are required to comply with under our most significant loan agreements:

Restrictive Covenant	Requirement	Projection as of June 30, 2015	Projection as of December 31, 2015
Mechel s Adjusted Shareholder Equity	Shall be greater than or equal to $3.0 billion	$2.8 billion	$3.0 billion
Mechel s Net Borrowings to EBITDA ratio	Shall not exceed 7.5:1	7.1:1	6.2:1
Mechel s EBITDA to Net Interest Expense ratio	Shall not be less than 1.5:1	1.3:1	1.7:1
Mechel s Net Borrowings	Shall not exceed $11.0 billion	$7.0 billion	$6.8 billion

The significant assumptions underlying our debt covenant determination are projected product prices, sales volumes, cost dynamics, inflation rates and discount rates. Some of these assumptions may materially deviate from our historical results primarily due to the market downturns and economic slowdowns in the recent years. All these material assumptions are based on our projections and are subject to risk and uncertainty. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Description of Certain Indebtedness

See Item 10. Additional Information Material Contracts for a summary description of material contracts related to our indebtedness. In addition, we have described below certain additional contracts related to our indebtedness. For more information, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 13. Defaults, Dividend Arrearages and Delinquencies and Item 8. Financial Information Litigation

Debt litigation.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from Gazprombank

General

On February 6, 2009, our subsidiaries Yakutugol and Southern Kuzbass Coal Company each entered into separate credit facility agreements with Gazprombank for a total amount of $1.0 billion: $550.0 million was made available to Yakutugol and $450.0 million was made available to Southern Kuzbass Coal Company. The credit facilities can be used for finance and operating activities, including financing affiliates and credit repayments. On February 24, 2010, the final maturity of the facility agreements was extended until February 2015.

In April 2013, Yakutugol and Southern Kuzbass Coal Company signed new loan agreements for the $889.0 million U.S. dollar-denominated credit facilities resulting in a rescheduling of outstanding short-term balances of $202.4 million and $250.0 million, respectively, maturing in five years with a three year grace period and bearing an interest of 7.5% per year (described in this section below).

As of December 31, 2014, the amount outstanding under the Southern Kuzbass Coal Company facility was $nil and the amount outstanding under the Yakutugol facility was $103.1 million. The overdue principal and the overdue interest under the Yakutugol facility amounted to $42.0 million and $2.4 million, respectively, as of December 31, 2014. In February 2015, we failed to repay the facility. We have requested the bank to restructure the repayment schedule of the facility.

Interest rate and interest period

Interest is paid on a monthly basis and was reduced during the term of the facility from a fixed rate of 14% to a rate of 3-month LIBOR plus 5.25% margin. Gazprombank may unilaterally, having provided 30 days prior notice, increase the interest rate if, among others, the CBR s refinance rate increases.

Repayment and prepayments

The facility was to be repaid in equal amounts on a quarterly basis, starting from the first quarter of 2013, not later than February 6, 2015; we failed to make last repayments.

Prepayment is free from any premium or penalty, subject to the borrower providing 30 days prior notice to the lender.

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel, Mechel Mining and Southern Kuzbass Coal Company.

Security

The borrower s obligations are secured by a pledge of 25%+1 share in each of Yakutugol, Southern Kuzbass Coal Company and Korshunov Mining Plant. The number of pledged shares of Yakutugol and Southern Kuzbass Coal Company can be increased up to 35% if we fail to comply with financial covenants.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015, 5.0:1 as of June 30, 2016 and December 31, 2016, 4.3:1 as of June 30, 2017, 3.8:1 as of December 31, 2017 and any other relevant period thereafter. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter. Mechel Mining s shareholder equity shall not be less than $3.0 billion. Mechel Mining s net borrowings shall not exceed $4.0 billion.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control provisions and cross-defaults relating to other debt.

The credit facility agreement is governed by Russian law.

Amended Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from VTB Bank

General

In September 2010, our subsidiaries Yakutugol and Southern Kuzbass Coal Company each entered into agreements further amending the one-year credit facility agreements executed with VTB Bank in November 2008 and further amended in November 2009, for the total amount of 13.6 billion rubles (approximately $422.4 million). In April 2012, we amended the credit facility agreements to extend their term until 2015 and change certain financial covenants.

In April 2014, VTB Bank converted the 13.6 billion ruble loan into U.S. dollars; as a result the debt of Yakutugol and Southern Kuzbass Coal Company amounted to $461.8 million. In July 2014, the debt was converted back into rubles and Yakutugol and Southern Kuzbass Coal Company signed amendments to the credit facility agreements in the amount of 5.8 billion rubles and 10.0 billion rubles (approximately $103.4 million and $177.9 million as of December 31, 2014), respectively, providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. We are currently in litigation with VTB Bank regarding these conversions. See Item 8. Financial Information Litigation Debt litigation.

As of December 31, 2014, Yakutugol and Southern Kuzbass Coal Company had overdue interest in the amount of 201.2 million rubles and 346.2 million rubles (approximately $3.6 million and $6.2 million), respectively. In January 2015, the overdue interest was fully repaid. We have requested the bank to restructure the repayment schedule of the facilities.

Interest rate and interest period

In September 2010, the interest rate was decreased to 9.75% per year. In April 2012, the interest was changed to the rate of 3-month MosPrime plus 4.5% per year. In April 2013, the interest rate was decreased to 3-month MosPrime plus 3.8% per year. In April 2014, the lender exercised its option to convert the ruble loan into U.S. dollars, following which the loan bore the rate of 3-month LIBOR plus 4.8%. In July 2014, VTB Bank converted the loans back into rubles at an exchange rate in effect on the date of transaction. The interest rate was changed to a fixed rate of 12.5% per year.

Repayment and prepayment

The maturity of the facilities for both Southern Kuzbass Coal Company and Yakutugol is April 10, 2018. Each of the facilities is to be repaid in four equal quarterly tranches starting on April 20, 2015.

Voluntary prepayment is allowed with prior consent of the lender for all or part of the loan amounts.

Guarantee

The credit facilities are guaranteed by each of Yakutugol (in respect of the Southern Kuzbass Coal Company credit facility), Mechel Mining, Mechel Carbon and Mechel Carbon Singapore.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015, 5.0:1 as of June 30, 2016 and December 31, 2016, 4.3:1 as of June 30, 2017, 3.8:1 as of December 31, 2017 and any other relevant period thereafter. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter.

In addition, under the loan agreement for Southern Kuzbass Coal Company (i) the aggregate EBITDA of each of the borrowers shall not be less than 70% of consolidated EBITDA of Mechel Mining; and (ii) the aggregate amount of property, plant and equipment of each of the borrowers shall not be less than 60% of the consolidated amount of property, plant and equipment of Mechel Mining.

Since July 2014, under the loan agreement for Yakutugol (i) EBITDA of the borrower shall not be less than 30% of consolidated EBITDA of Mechel Mining; and (ii) the amount of property, plant and equipment of the borrower shall not be less than 25% of the consolidated amount of property, plant and equipment of Mechel Mining.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

The credit facility agreements are governed by Russian law.

Facility Agreement for Chelyabinsk Metallurgical Plant from BNP Paribas, Gazprombank and UniCredit Universal Rolling Mill Facility Agreement

General

On September 15, 2010, we signed a credit facility agreement to finance the universal rolling mill installation project at our subsidiary Chelyabinsk Metallurgical Plant. The $471.2 million credit facility consists of three tranches underwritten by BNP Paribas S.A., Gazprombank and UniCredit. Gazprombank s tranche is $219.4 million, BNP Paribas s tranche is 102.8 million (approximately $134.6 million) and UniCredit s tranche is 89.2 million (approximately $117.1 million). The credit facility benefits from insurance coverage of the Italian, German and Chinese export credit agencies: SACE, Euler Hermes and Sinosure, respectively.

The purpose of the facility is to finance payments under two contracts: the equipment and technology supply contract executed with Danieli and the general construction contract executed with Minmetals.

As of December 31, 2014, the amount outstanding under the facility was $342.8 million, with overdue principal in the amount of $27.5 million. We have requested the lenders to restructure the repayment schedule of the facility.

Interest rate and interest period

Interest on the facility tranche underwritten by Gazprombank (Facility A) is payable at LIBOR plus a margin of 6.75% per year during the period until the construction completion date and at LIBOR plus a margin of 6.25% per year after that date. Interest on the facility tranche underwritten by UniCredit (Facility B) is payable at EURIBOR plus a margin of 1.50% per year. Interest on the facility tranche underwritten by BNP Paribas (Facility C) is payable at EURIBOR plus a margin of 1.60% per year.

Accrued interest is payable twice a year on payment dates January 21 and July 21.

Repayment and prepayments

The borrower must repay the tranches in 13 equal semi-annual installments in respect of Facility A; 16 equal semi-annual installments in respect of Facility B; and 16 equal semi-annual installments in respect of Facility C.

Repayment starts on the first repayment date, which means in respect of each of the tranches, the first payment date (January 21 or July 21) falling after the earlier of (a) the end of the availability period and (b) the construction completion date. The availability period under all three tranches is 30 months from the signing date. Facility A must be repaid in full after six years following the first repayment date, Facilities B and C must be repaid in full after seven and a half years following the first repayment date.

The borrower may make a pro rata prepayment of the loan with the prior written consent of the lenders. A prepayment of part of the loan must be of a minimum amount of $10.0 million in respect of Facility A, and 10.0 million in respect of Facility B and Facility C.

In July 2014 and January 2015, the borrower failed to pay the installments.

Guarantee

The borrower s obligations under the credit facility agreement are guaranteed by Mechel.

Security

The borrower s obligations under the credit facility agreement are secured by a pledge of 20% of the common shares of Chelyabinsk Metallurgical Plant. The borrower has also granted security over certain of its assets, including real estate and equipment to secure its obligations.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel s ratio of net borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2015, 6.3:1 as of December 31, 2015, June 30, 2016 and December 31, 2016, 6.0:1 as of June 30, 2017, 5.8:1 as of December 31, 2017 and thereafter, provided that if during any period the ratio of net borrowings to EBITDA is 3.0:1 or less, then the ratio of 3.0:1 continues to apply thereafter. Mechel s ratio of EBITDA to net interest expense shall not fall below 1.5:1 as of June 30, 2015, 2.0:1 as of December 31, 2015 and thereafter. Mechel s shareholder equity shall be equal to or exceed $3.0 billion.

Mechel may pay dividends: (i) on our common and preferred shares, provided that the ratio of Mechel s net borrowings to EBITDA does not exceed 3.0:1, and if such dividends are funded from available excess cash flow, provided that no default occurs or would occur as a result of that payment; and (ii) if dividends on our preferred shares do not exceed 20% of Mechel s net profit. If Mechel records a loss as shown in the financial statements, the amount of permitted dividends paid on our preferred shares shall be limited to 7.5 million rubles (approximately $244.9 thousand) for any such financial year.

Acquisitions by members of our group are permitted if (1) such acquisitions in aggregate do not exceed (i) $5.0 million when the ratio of our net borrowings to EBITDA exceeds 3.5:1, (ii) $50.0 million when the ratio of our net borrowings to EBITDA is within the range of 3.0:1 3.5:1, (iii) $250.0 million when the ratio of our net borrowings to EBITDA is within the range of 2.5:1 3.0:1, (iv) $375.0 million when the ratio of our net borrowings to EBITDA is within the range of 2.0:1 2.5:1, or (v) $500.0 million when the ratio of our net borrowings to EBITDA is 2.0:1 or less; or (2) the total amount of such acquisition is fully financed by available excess cash flow.

The borrower may not, without prior consent from the lender, enter into any amalgamation, demerger, merger or reorganization except an intra-group reorganization on a solvent basis.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by English law.

Credit Facility for Chelyabinsk Metallurgical Plant from Sberbank

General

On October 13, 2010, Sberbank opened a credit line for Chelyabinsk Metallurgical Plant for the total amount of 15.0 billion rubles (approximately $493.9 million) to refinance short-term debt. On December 19, 2013, the borrower and Sberbank entered into an amendment to the loan agreement by extending the term of the facility by five years with a repayment grace period until March 30, 2015 and amending the security structure. As of December 31, 2014, the facility was fully drawn. The overdue interest amounted to $8.0 million. In January 2015, the overdue interest was fully repaid. We have requested the bank to restructure the repayment schedule of the facility.

Interest rate and interest period

Starting with December 19, 2013 until December 10, 2018, the interest on the loan is set at a rate of 12% per year if the turnover on our companies accounts with Sberbank during each calendar quarter exceeds 25% of outstanding liabilities under the loan and 12.5% per year if below this threshold.

Accrued interest is payable on the 28th day of the last month of each three-month interest period. Sberbank has the right to revise the interest rate with a 30-day prior notice.

Repayment and prepayments

The credit facility is repayable in 16 quarterly installments starting on March 30, 2015. The final repayment date is December 10, 2018.

Guarantee

The borrower s obligations under the credit facility agreement are guaranteed by Mechel, Mecheltrans, Mechel Service and Bratsk Ferroalloy Plant.

Security

Starting from December 2013, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, a pledge of equipment and immovable assets of Bratsk Ferroalloy Plant and a mortgage over immovable assets of Chelyabinsk Metallurgical Plant.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

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Under the credit facility agreement, Mechel s ratio of net borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2015, 6.0:1 as of December 31, 2015, 5.5:1 as of June 30, 2016, 5:1 as of December 31, 2016, 4.5:1 as of June 30, 2017, 4.0:1 as of December 31, 2017 and 3.5:1 as of June 30, 2018. Mechel s ratio of EBITDA to net interest expense shall not fall below 1.5:1 as of June 30, 2015, 2.0:1 as of December 31, 2015, 2.5:1 as of June 30, 2016 and December 31, 2016, 3.0:1 as of June 30, 2017 and thereafter. Mechel s shareholder equity shall be equal to or exceed $3.0 billion. Mechel s net borrowings shall not exceed $10.0 billion starting from 2015 and thereafter. Finance lease liabilities are not included in net borrowings.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility from Eurasian Development Bank

General

On June 22, 2011, Yakutugol signed a credit facility agreement in the amount of 2.8 billion rubles (approximately $95.3 million) with a tenor of five years for the sole purpose of financing the development of the Elga coal deposit. As of December 31, 2014, the amount outstanding under the facility was 2.1 billion rubles (approximately $37.3 million). The overdue principal and the overdue interest amounted to $12.4 million and $10.7 thousand, respectively, as of December 31, 2014. In February 2015, we partially repaid the overdue principal and fully repaid the overdue interest. We have requested the bank to restructure the repayment schedule of the facility.

Interest rate and interest period

The interest rate under the facility was initially set at 8.16% per year, but increased to 11.5% per year starting with December 2013. The lender has the right to change the interest rate with a 60-day prior notice if, for example, an event having a material adverse effect on the economic, financial and political situation in Russia occurs.

Interest is paid on a quarterly basis.

Repayment and prepayments

The facility has a term of five years with the principal amount to be repaid in equal quarterly installments starting from June 2012. The borrower may prepay the loan in full or in part with a 10 business day prior notice on the first payment date after the first anniversary of the credit facility. The minimum amount of each prepayment may not be less than 100.0 million rubles (approximately $1.8 million).

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel Mining.

Security

The credit facility is secured by pledges over equipment of Mechel Coke, Chelyabinsk Metallurgical Plant and Yakutugol.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

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Under the credit facility agreement, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015 and 5.0:1 as of June 30, 2016 and December 31, 2016. Mechel Mining s ratio of EBITDA to net interest expense shall not fall below 2.7:1 as of June 30, 2015 and 4.0:1 as of December 31, 2015 and thereafter. Mechel Mining s net borrowings shall not exceed $4.0 billion.

The credit facility contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility for Mechel Trading from Sberbank

General

In December 2013, the borrower and Sberbank entered into an amendment to the existing $100.0 million credit facility by extending the term of the facility by five years with a repayment grace period until March 2015 and amending the security structure. The purpose of the credit line is working capital, intra-group and pre-export financing. As of December 31, 2014, the facility was fully drawn.

Interest rate and interest period

The interest rate under both tranches is payable quarterly at 3-month LIBOR plus a margin of 6%.

Repayment and prepayments

Each tranche is to be fully repaid in 16 quarterly installments starting on March 28, 2015. The final repayment date is December 10, 2018. If the borrower repays the loan before the payment dates (in advance), it has to pay the extra prepayment fees (1.5% per year of the repayment amount). In December 2014, we have requested the bank to restructure the repayment schedule of the facility.

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel, Chelyabinsk Metallurgical Plant, Mecheltrans, Mechel Service and Bratsk Ferroalloy Plant.

Security

Starting from December 2013, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, 25%+1 share of Beloretsk Metallurgical Plant and equipment and immovable assets of Bratsk Ferroalloy Plant.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel s ratio of net borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2015, 6.0:1 as of December 31, 2015, 5.5:1 as of June 30, 2016, 5.0:1 as of December 31, 2016, 4.5:1 as of June 30, 2017, 4.0:1 as of December 31, 2017 and 3.5:1 as of June 30, 2018. Mechel s ratio of EBITDA to net interest expense shall not fall below 1.5:1 as of June 30, 2015, 2.0:1 as of December 31, 2015, 2.5:1 as of June 30, 2016 and December 31, 2016, 3.0:1 as of June 30, 2017 and thereafter. Mechel s shareholder equity shall be equal to or exceed $3.0 billion. Mechel s net borrowings shall not exceed $10.5 billion. Finance lease liabilities are not included in net borrowings.

The credit facility contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from Gazprombank

General

In April 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into two separate non-revolving credit facility agreements with Gazprombank for a total amount of $500.0 million: $300.0 million was made available to Yakutugol and $200.0 million was made available to Southern Kuzbass Coal Company, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing short-term debt. As of December 31, 2014, the facilities were fully drawn. The overdue interest amounted to $9.4 million and $6.3 million for Yakutugol and Southern Kuzbass Coal Company, respectively, as of December 31, 2014. We have requested the bank to restructure the repayment schedule of the facilities.

Interest rate and interest period

The credit facilities each bear an interest rate of 7.5% per year. Interest is paid on a monthly basis.

Repayment and prepayments

Each of the facilities is to be repaid not later than April 26, 2017. Repayment is to be made in equal amounts on a quarterly basis by way of direct debit from the borrowers accounts opened with the lender starting from the second quarter of 2015.

The borrowers may prepay the loans issued under credit facilities in full or in part after April 27, 2013. Prepayment is free from any premium or penalty, subject to the borrowers providing 30 days prior notice to the lender.

Guarantee

The borrowers obligations are guaranteed in full by Mechel and Mechel Mining and cross guarantees between Southern Kuzbass Coal Company and Yakutugol.

Security

The borrowers obligations under the credit facility agreements are secured by a pledge of 25%+1 share in each of Korshunov Mining Plant, Southern Kuzbass Coal Company and Yakutugol. The number of pledged shares of Southern Kuzbass Coal Company and Yakutugol can be increased up to 35% if we fail to comply with financial covenants.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015, 5.0:1 as of June 30, 2016 and December 31, 2016, 4.3:1 as of June 30, 2017, 3.8:1 as of December 31, 2017 and any other relevant period thereafter. Mechel

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Mining s ratio of EBITDA to net interest expense shall not be less than 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter. Mechel Mining s net debt shall not exceed $4.0 billion and shareholder equity shall not be less than $3.0 billion.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreements are governed by Russian law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from Gazprombank

General

In April 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of $889.0 million: $400.0 million was made available to Southern Kuzbass Coal Company and $489.0 million was made available to Yakutugol, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt provided by Gazprombank.

As of December 31, 2014, the amount outstanding under the Southern Kuzbass Coal Company facility was $400.0 million and the amount outstanding under the Yakutugol facility was $385.8 million. The overdue interest amounted to $12.6 million and $12.1 million for Southern Kuzbass Coal Company and Yakutugol, respectively, as of December 31, 2014. We have requested the bank to restructure the repayment schedule of the facilities.

Interest rate and interest period

The credit facilities each bear an interest rate of 7.5% per year. Interest is paid on a monthly basis.

Repayment and prepayments

Each of the facilities is to be repaid not later than April 26, 2018. Repayment is to be made in equal amounts on a quarterly basis starting from the second quarter of 2016.

The borrowers may prepay the loans issued under credit facilities in full or in part. Prepayment is free from any premium or penalty, subject to the borrowers providing 10 days prior notice to the lender.

Guarantee

The borrowers obligations under the credit facility agreements are guaranteed in full by Mechel Mining and Mechel and cross guarantees between Southern Kuzbass Coal Company and Yakutugol.

Security

The borrowers obligations are secured by a pledge of 25%+1 share in each of Yakutugol, Southern Kuzbass Coal Company and Korshunov Mining Plant. The number of pledged shares of Yakutugol and Southern Kuzbass Coal Company can be increased up to 35% if we fail to comply with financial covenants.

Covenants and other matters

For the relevant period ending on December 31, 2014, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015, 5.0:1 as of June 30, 2016 and December 31, 2016,

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4.3:1 as of June 30, 2017, 3.8:1 as of December 31, 2017 and any other relevant period thereafter. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreements are governed by Russian law.

Russian bonds

On July 30, 2009, we placed series 04 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The bonds are secured by a guarantee from Yakutugol. The proceeds were used to fund the construction of the Elga coal complex. The bonds are due on July 21, 2016. The bonds bear a coupon to be paid quarterly. The interest rate for the first 12 coupons was set at 19% per annum, for the 13-16 coupons was set at 11.25% per annum, for the 17-22 coupons was set at 13% per annum and for the 23-24 coupons was set at 8% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on July 19, 2015 until July 23, 2015. We are entitled to redeem the bonds on July 27, 2015. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. The bonds are included on the CBR Lombard list; if the CBR excludes the bonds from this list, the bondholders may also demand early redemption of the bonds. We partially redeemed the bonds ahead of maturity on July 29, 2013 in the amount of 1.349 billion rubles, on January 27, 2014 in the amount of 1.276 billion rubles, on July 28, 2014 in the amount of 858 million rubles and on January 26, 2015 in the amount of 325 million rubles.

On September 7, 2010, we placed series 13 and series 14 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds are due on August 25, 2020. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 10% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on August 27, 2015 until September 1, 2015. We are entitled to redeem the bonds on September 3, 2015. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

On February 22, 2011, we placed series 15 and series 16 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds are due on February 9, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 6 coupons was set at 8.25% per annum, for the 7-8 coupons was set at 13% per annum and for the 9-11 coupons was set at 8% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on August 12, 2016 until August 16, 2016. We are entitled to redeem such bonds on August 18, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. We partially redeemed the series 15 and series 16 bonds ahead of maturity on February 20, 2014 in the amount of 8.149 billion rubles, on August 21, 2014 in the amount of 75 million rubles and on February 19, 2015 in the amount of 37.2 million rubles.

On June 9, 2011, we placed series 17 and series 18 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on May 27, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on May 29, 2016. We are entitled to redeem the bonds on June 6, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

On June 14, 2011, we placed series 19 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on June 1, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on June 3, 2016. We are entitled to redeem the bonds on June 9, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

On February 14, 2012, we placed series BO-04 non-convertible interest-bearing exchange bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are admitted to trading at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on February 10, 2015. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 4 coupons was set at 10.25% per annum and for the 5-6 coupons was set at 13% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders are also entitled to demand early redemption of the bonds if: (1) our shares are delisted from a respective stock exchange, (2) we declare default under these or any other Russian bonds, or (3) we are required to redeem any other bonds. We partially redeemed the bonds ahead of maturity on February 13, 2014 in the amount of 4.254 billion rubles. We fully redeemed the bonds on February 10, 2015.

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Contractual Obligations and Commercial Commitments

The following table sets forth the amount of our contractual obligations and commercial commitments as of December 31, 2014.

		Payments Due by Period			
Contractual Obligations and Commercial Commitments	**Total**	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**More Than 5 Years**
	(In thousands of U.S. dollars)				
Short-Term Borrowings and Current Portion of Long-Term Debt	6,678,549	6,678,549			
Long-Term Debt Obligations, Net of Current Portion	166,532		165,803	486	243
Interest Payable(1)	280,015	280,015			
Operating Lease Obligations	1,451,950	42,220	80,521	78,806	1,250,403
Purchase Obligations(2)	80,834	80,834			
Restructured Taxes Payable					
Asset Retirement Obligations(3)	47,190	3,478	11,297	8,733	23,682
Pension and Post-Retirement Benefits(4)(5)	78,878	18,656	10,656	9,211	40,355
Short-Term Finance Lease Obligations	270,980	270,980			
Long-Term Finance Lease Obligations	2,813		2,568	245	
Contingent payment for Bluestone acquisition(6)	29,936	29,936			
Contractual commitments to acquire plant, property and equipment, raw materials and for delivery of goods and services(7)	1,430,705	1,351,980	52,762	2,302	23,661
Estimated interest expense(8)	2,621,755	652,003	1,060,088	909,664	
Estimated average interest rate(8)	8.5%	9.4%	8.1%	8.3%	
Total Contractual Obligations and Commercial Commitments	13,140,137	9,408,651	1,383,695	1,009,447	1,338,344

(1) Interest payable as of December 31, 2014 amounted to $1.4 million and $278.6 million for short-term borrowings and current portion of long-term debt and long-term debt obligations, net of current portion, respectively. Interest payable includes $44.0 million of interests and fines accrued on overdue credit facilities (overdue principal amount and interests). Interest payable is included in amount of $280.0 million in current period figure. In the year ended December 31, 2014, our interest expense was $793.2 million and we paid out $453.7 million in interest, net of amounts capitalized.
(2) Accounts payable for capital expenditures.
(3) See note 16 to the consolidated financial statements.
(4) See note 17 to the consolidated financial statements.
(5) Includes $60.2 million pension and post-retirement benefits due in more than one year.
(6) See note 4 to the consolidated financial statements.
(7) See note 26 to the consolidated financial statements.
(8) Interest expense is estimated for a five-year period based on (1) estimated cash flows and change of the debt level, (2) forecasted LIBOR rate where applicable, (3) actual long-term contract interest rates and fixed rates,

forecasted with reasonable assurance on the basis of historic relations with major banking institutions.

As of December 31, 2014, we guaranteed the fulfillment of obligations to third parties for a total amount of $2.1 million. These guarantees are given by us under promissory notes, which were transferred by endorsement.

Commitments for capital expenditures were $474.8 million as of December 31, 2014. This amount includes our contractual commitments related to acquisition of property, plant and equipment arising from various purchase and construction agreements in respect of railway construction for the Elga coal complex in the amount of $378.9 million. See note 26 to the consolidated financial statements.

The total carrying and discounted amount of commitments under lease contracts as of December 31, 2014 is equal to $nil. See note 18 to the consolidated financial statements.

Inflation

Inflation in the Russian Federation was 11.4% in 2014, 6.5% in 2013 and 6.6% in 2012. Inflation has generally not had a material impact on our results of operations during the period under review in this section. However, we cannot guarantee that inflation will not materially adversely impact our results of operations in the future in case inflation accelerates. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Inflation could increase our costs and decrease operating margins.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates. Management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions or conditions.

We believe that the following are the more significant policies, judgments and estimates used in the preparation of the financial statements.

Accounting for business combinations

We account for our business acquisitions according to Financial Accounting Standards Board (**FASB**) Accounting Standards Codification (**ASC**) 805, Business Combinations (**ASC 805**), and FASB ASC 810, Consolidation (**ASC 810**). We accounted for all combinations using the acquisition method of accounting.

The accounting for business combinations under the acquisition method is complicated and involves the use of significant judgment. Under the acquisition method of accounting, a business combination is accounted for at a purchase price based upon the fair value of the consideration given, whether it is in the form of cash, assets, stock, the assumption of liabilities, or the contingent consideration. The assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date are measured at their fair values. Determining the fair values of the assets and liabilities acquired involves the use of judgment, since the majority of the assets and liabilities acquired do not have fair values that are readily determinable. Different techniques may be used to determine fair values, including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. Since these estimates involve the use of significant judgment, they can change as new information becomes available.

The most difficult estimations of individual fair values are those involving property, plant and equipment, mineral licenses and identifiable intangible assets. We use all available information to make these fair value determinations and, for major business acquisitions, typically engage an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. We have, if necessary, up to one year after the acquisition closing date to finish these fair value determinations and finalize the purchase price allocation.

Goodwill

Goodwill represents the excess of the consideration transferred plus the fair value of any non-controlling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. For the

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acquisitions with the effective date before January 1, 2009, the excess of the fair value of net assets acquired over cost, called negative goodwill, was allocated to the acquired non-current assets (except for deferred taxes, if any) until they were reduced to zero. Since January 1, 2009, the excess of the fair value of net assets acquired over the fair value of consideration transferred, plus the fair value of any non-controlling interest should be recognized as a gain in consolidated statements of operations and comprehensive income (loss) on the acquisition date. FASB ASC 350, Intangibles Goodwill and Other (**ASC 350**), prohibits the amortization of goodwill. Instead, goodwill is tested for impairment at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more likely than not result in impairment.

For the investees accounted for under the equity method, the excess of cost of the stock of those companies over our share of fair value of their net assets as of the acquisition date is treated as goodwill embedded in the investment account. Goodwill arising from equity method investments is not amortized, but tested for impairment at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more likely than not result in impairment.

As of December 31, 2014 and 2013, we reported goodwill of $403.2 million and $687.8 million, respectively. According to the results of the impairment analysis of goodwill in the years ended December 31, 2014 and 2013, impairment losses of $nil and $38.3 million were recognized, respectively.

Non-controlling interest

Non-controlling interests in the net assets and net results of consolidated subsidiaries are shown under the Non-controlling interests and Net income (loss) attributable to non-controlling interests lines in the accompanying consolidated balance sheets and statements of income and comprehensive (loss) income, respectively. Losses attributable to our group and the non-controlling interests in a subsidiary may exceed their interests in the subsidiary s equity. The excess, and any further losses attributable to our group and the non-controlling interests, are to be attributed to those interests. That is, the non-controlling interests continue to be attributed to their share of losses even if that attribution results in a deficit non-controlling interest balance.

Principles of variable interest entity consolidation

Effective from January 1, 2010, our group adopted required changes to consolidation guidance for variable interest entities that require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. These changes to the consolidation guidance defined the primary beneficiary of a variable interest entity as the enterprise that has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, the required changes provide guidance on shared power and joint venture relationships, remove the scope exemption for qualified special purpose entities, revise the definition of a variable interest entity, and require additional disclosures.

The adoption of the above mentioned changes to consolidation guidance did not have impact on the consolidated financial statements of our group. Our group does not have significant consolidated variable interest entities.

Reporting and functional currencies

We have determined our reporting currency to be the U.S. dollar. The functional currencies for our Russian, European, Romanian, Ukrainian, Kazakh, Bulgarian and Turkish subsidiaries are the Russian ruble, euro, the Romanian lei, the

Ukrainian hryvnia, the Kazakh tenge, the Bulgarian lev and the Turkish lira, respectively. The U.S. dollar is the functional currency of our other international operations.

The translation adjustments resulting from the process of translating financial statements from the functional currency into the reporting currency are included in determining other comprehensive income. Our foreign subsidiaries translate their functional currencies into U.S. dollars using the current rate method as prescribed by FASB ASC 830, Foreign Currency Matters (**ASC 830**), for all periods presented.

Management estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depletion and depreciation. Property, plant and equipment acquired in business combinations are initially recorded at their respective fair values as determined by independent appraisers in accordance with the requirements of ASC 805.

Mineral licenses

The mineral licenses are recorded at their fair values at the date of acquisition, based on the appraised fair value. Fair value of mineral licenses acquired prior to August 22, 2004 (the date of change in the Russian Subsoil Law that makes license extensions through the end of the estimated proven and probable reserve period reasonably assured) is based in part on independent mining engineer appraisals for proven and probable reserves during the license term.

Fair value of mineral licenses acquired after August 22, 2004 is based in part on independent mining engineer appraisals of the estimated proven and probable reserve through the estimated end of the depletion period. Such mineral licenses are amortized using the units-of-production method through the end of the estimated proven and probable reserve depletion period.

In order to calculate proven and probable reserves, estimates and assumptions are used about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. There are numerous uncertainties inherent in estimating proven and probable reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

We established a policy of engaging independent mining engineers to review our proven and probable reserves approximately every three years unless circumstances or additional factors warrant an additional analysis. This policy does not change our approach to the measurement of proven and probable reserves as of their acquisition dates as part of business combinations that continue to involve independent mining engineers. Our proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

Our management evaluates our estimates and assumptions on an ongoing basis; however, actual amounts could differ from those based on such estimates and assumptions. As of December 31, 2014 and 2013, the carrying amount of our mineral licenses amounted to $720.0 million and $1,293.5 million, respectively.

Intangible assets

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years. Indefinite-lived intangibles are evaluated annually

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for impairment or when indicators exist indicating such assets may be impaired. Such evaluation assumes determination of fair value of intangible assets based on a valuation model that incorporates expected future cash flows and profitability projections.

Retirement benefit obligations

Our Russian subsidiaries are legally obligated to make defined contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). Our contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year to which they relate.

In 2012, the total rate of social contributions was 30%: contributions to the Russian Pension Fund in the amount of 22% of the annual gross salary of each employee, contributions to the Fund of Obligatory Medical Insurance in the amount of 5.1% and contributions to the Social Insurance Fund in the amount of 2.9%. These rates were applied to the part of the annual gross salary below 512,000 rubles, and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

In 2013, the rates of social contributions remained at the same level as in 2012. These rates were applied to the part of the annual gross salary below 568,000 rubles, and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

In 2014, the rates of social contributions remained at the same level as in 2013. These rates were applied to the part of the annual gross salary below 624,000 rubles, and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

Contributions to the Russian Pension Fund for the years ended December 31, 2014, 2013 and 2012 were $160.0 million, $192.8 million and $176.9 million, respectively.

In addition, we have a number of defined benefit pension plans that cover the majority of production employees. Benefits under these plans are primarily based upon years of service and average earnings. We account for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income and comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. Our obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield at year end on highly rated long-term bonds.

Pension and Post-Retirement Benefit obligations and the results of sensitivity analysis of Pension and Post-Retirement Benefit obligations as of December 31, 2014 are disclosed in note 17 to the consolidated financial statements.

Revenue recognition

Revenue is recognized on an accrual basis when earned and realizable, which generally occurs when products are delivered to customers. In some instances, while title of ownership has been transferred, the revenue recognition criteria are not met as the selling price is subject to adjustment based upon the market prices. Accordingly, in those instances, revenue and the related cost of goods sold are recorded as deferred revenues and deferred cost of inventory in transit in the consolidated balance sheets and are not recognized in the consolidated income statement until the price becomes fixed and determinable, which typically occurs when the price is settled with the end customer. In certain foreign jurisdictions (e.g. Switzerland), our group generally retains title to goods sold to end customers solely to ensure the collectibility of its accounts receivable. In such instances, all other sales recognition criteria are met, which allows our group to recognize sales revenue in conformity with underlying sales contracts.

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Revenue is recognized net of applicable provisions for discounts and allowances and associated sales taxes (VAT) and export duties.

Revenues are inflows from sales of goods that constitute ongoing major operations of our group and are reported as such in the consolidated statement of comprehensive income (loss). Inflows from incidental and peripheral operations are considered gains and are included, net of related costs, in other income in the consolidated statement of comprehensive income (loss).

Our group is involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when our group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when our group has earned a commission or fee as an agent. Our group evaluates the relevant facts and circumstances and takes into consideration the following factors in determining whether to recognizes revenue on a gross basis: (1) our group is the primary obligor in the arrangement; (2) our group has general inventory risk including customer returns; (3) our group has latitude in establishing price; (4) our group changes the product or performs part of the service; (5) our group has discretion in supplier selection; (6) our group is involved in the determination of product or service specifications; (7) our group has physical loss inventory risk; and (8) our group has credit risk. Otherwise, revenues are reported net when our group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. This accounting policy of reporting revenue gross as a principal versus net as an agent has no effect on gross profit, income from continuing operations, before taxes, or net income.

In the situation when our group acts as a supplier and as a buyer with the same counterparty, our group analyzes the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

In the power segment (see note 25 to the consolidated financial statements), revenue is recognized based on the unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

We categorize revenues as follows:

- domestic;
- Russia: sales of Russian production within Russia;
- other domestic: sales of non-Russian production within the country of production; and
- export: sales of production outside of country of production.

Property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocable material and manufacturing overhead costs. Manufacturing overhead costs are capitalized only if and to the extent they can be reliably measured and directly allocated to definite object of construction-in-progress. These costs include the costs of electricity used to operate the equipment, depreciation on the equipment, costs of personnel (other than direct labor) and other costs. When construction activities are performed over an extended period, interest costs incurred during construction are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

The costs of planned major maintenance activities are recorded as the costs are actually incurred and are not accrued in advance of the planned maintenance. Costs for activities that lead to prolonging the useful life or

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expanding the future use of an asset are capitalized. Maintenance and repair costs are expensed as incurred. We expensed $38.7 million and $66.0 million of repair and maintenance costs during the period ended December 31, 2014 and 2013, respectively. These amounts represent the cost of third parties repair and maintenance services. Repair and maintenance costs carried out internally are accounted for as expense according to the nature of cost elements, including cost of labor and related social taxes, spare parts, auxiliary materials, energy and other expenses.

Other than for mineral licenses and other long-lived mining assets and processing plant and equipment, we record depreciation primarily using the straight-line method on a pro rata basis.

The following useful lives are used as a basis for recording depreciation:

Category of Asset	**Useful Economic Lives Estimates, Years**
Buildings and constructions	5-85
Operating machinery and equipment	2-30
Transfer devices	3-30
Transportation equipment and vehicles	2-25
Tools, furniture, fixtures and other	2-15

The remaining useful economic lives of our property, plant and equipment are revised on an annual basis.

Mining assets and processing plant and equipment

Mineral exploration costs incurred prior to establishing proven and probable reserves for a given property are expensed as incurred. These costs also include the costs of identifying and upgrading mineral resources to reserve status for mineral projects in the development and production stages. Proven and probable reserves are established based on independent feasibility studies and appraisals performed by mining engineers. No exploration costs were capitalized prior to the point when proven and probable reserves are established. Reserves are defined as that part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination. Proven reserves are defined as reserves, for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes (grade and/or quality are computed from the results of detailed sampling) and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are defined as reserves, for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. Accordingly, the degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. In addition, interest expense allocable to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Expenditures for improvements are capitalized, while costs related to maintenance (turnarounds) are expensed as incurred. In addition, costs incurred to maintain current production capacity at a mine and exploration expenditures are charged to expenses as incurred. Stripping costs incurred during the production phase of a mine are expensed as incurred.

Mining assets and processing plant and equipment are those assets, including construction-in-progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction after exhausting of the reserves of such mine or field, these assets cannot be used further for any other purpose without a capital reconstruction. When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proven and probable mineral reserves that are expected to be mined during the license term for mining assets related to the mineral licenses acquired prior to August 22, 2004 (see note 3(k) to the consolidated financial statements), or the estimated lives of the mines for mining assets related to the mineral licenses acquired after that date. The unit-of-production method is used for the underground mine development structure costs, as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that we will continue exploration of the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

Long-lived assets impairment, including definite-lived intangibles and goodwill

We follow the requirements of FASB ASC 360, Property, Plant and Equipment (**ASC 360**), which addresses financial accounting and reporting for the impairment and disposal of long-lived assets, and ASC 350, with respect to impairment of goodwill and intangibles. We review the carrying value of our long-lived assets, including property, plant and equipment, investments, goodwill, licenses to use mineral reserves (inclusive of capitalized costs related to asset retirement obligations and value beyond proven and probable reserves), and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable as prescribed by ASC 350 and ASC 360. Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group of assets.

In performing the impairment analysis, we consider whether the results and cash flows of an asset or asset group can be clearly distinguished from results and cash flows of our other assets. Generally, long-lived assets are grouped by reporting units with discrete financial information regularly reviewed by operating management (i.e. the lowest level of identifiable cash flows that are independent of the cash flows of other assets is at a single entity level). At Southern Kuzbass Coal Company, a group of assets is determined by the aggregated mines owned and operated by Southern Kuzbass Coal Company, because they are dependent on operations of each other and represent the single production process.

If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired and impairment charge is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to their fair value.

Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. For assets and groups of assets relating to and including the licenses to use mineral reserves, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves and estimated value beyond proven and probable mineral reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers. Our reporting units with goodwill allocated for the testing purposes represent single entities with one component of business in each case. As of December 31, 2014, we had the following number of reporting units by segments with goodwill allocated for testing purposes: Steel 2, Mining 4 and Power 2. Estimated future cash flows are based on our assumptions and are subject to risk and uncertainty that are considered in the discount rate applied in the goodwill impairment testing.

ASC 350 prohibits the amortization of goodwill. Instead, goodwill is tested for impairment at least annually and on an interim basis when an event occurs that could potentially lead to the impairment, i.e., a significant decline in selling prices, production volumes or operating margins. Under ASC 350, goodwill is assessed for impairment by using the fair value based method. We determine fair value by utilizing discounted cash flows. The impairment test required by ASC 350 for goodwill includes a two-step approach. Under the first step, companies must compare the fair value of a reporting unit to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit s goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit s assets and liabilities (a hypothetical purchase price allocation).

If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

When performing impairment tests, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. We estimate discount rates using after-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. While impairment of long-lived assets does not affect reported cash flows, it does result in a non-cash charge in the consolidated statements of operations and comprehensive income (loss), which could have a material adverse effect on our results of operations or financial position.

As of December 31, 2014, we performed an impairment analysis of goodwill at all our reporting units. In addition, we tested long-lived assets for recoverability at those reporting units, where events or changes in circumstances indicate that their carrying amounts may not be recoverable. Cash flow forecasts used in this test were based on the assumptions as of December 31, 2014. The forecasted period for our non-mining subsidiaries was assumed to be five years to reach stabilized cash flows, and the value beyond the forecasted period was based on a terminal growth rate of 2.5%. For our mining subsidiaries the forecasted period was based on the remaining life of the mines. Cash flow projections were prepared using assumptions that comparable market participants would use.

Forecasted inflation rates for the period 2015-2019, which were used in cash flow projections, were as follows:

Region	2015	2016	2017	2018	2019
Russia	12%	6%	5%	5%	5%
European countries	3%	3%	3%	4%	3%

Discount rates were estimated in nominal terms on the weighted average cost of capital basis. These rates, estimated for each year for the forecasted period, are as follows:

	2015	2016	2017	2018	2019
Discount rate	14.63%	14.22%	13.88%	13.15%	11.38%

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Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by our group during the year ended December 31, 2014, no goodwill impairment was recognized.

As of December 31, 2014, we tested long-lived assets for recoverability for 21 reporting units. We tested long-lived assets for impairment at each reporting unit where the potential amount of such impairment could be material.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $120.2 million for the year ended December 31, 2014 was recognized in the following reporting units:

Reporting Unit	**Segment**	**Impairment Loss as for the Year Ended December 31, 2014 (In millions of U.S. dollars)**
Izhstal	Steel	101.1
Donetsk Electrometallurgical Plant	Steel	18.0
Mechel Service Romania	Steel	1.1
Total		120.2

The remaining carrying value of the long-lived assets of Mechel Service Romania after recording of long-lived assets impairment as of December 31, 2014 was $4.3 million. The remaining carrying value of the long-lived assets of Donetsk Electrometallurgical Plant and Izhstal was $nil.

According to the results of the impairment analysis of goodwill, an impairment loss of $38.3 million for the year ended December 31, 2013 was recognized in the following reporting units:

Reporting Unit	**Segment**	**Impairment Loss as for the Year Ended December 31, 2013 (In millions of U.S. dollars)**
Kuzbass Power Sales Company	Power	28.1
Ekos-plus	Mining	4.1
WNL Staal	Steel	2.3
Ramateks	Steel	2.2
Mechel Transport	Mining	1.6
Total		38.3

The remaining carrying value of the goodwill for Kuzbass Power Sales Company where we recorded goodwill s impairment as of December 31, 2013 was $31.4 million. The values of the goodwill for units of Steel and Mining segments were written off in the full amount in 2013.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $177.4 million for the year ended December 31, 2013 was recognized for Donetsk Electrometallurgical Plant. The remaining carrying value of the long-lived assets of Donetsk Electrometallurgical Plant after recording of long-lived assets impairment as of December 31, 2013 was $35.7 million.

According to the results of the impairment analysis of goodwill as of December 31, 2014, the following reporting units with goodwill allocated for testing purposes have the estimated fair values that are not substantially in excess of their carrying values and goodwill for such reporting units, if impaired, could materially impact our group s results:

Reporting Unit	Segment	The Excess of Fair Value over Carrying Value	Goodwill Allocated to the Reporting Unit (In millions of U.S. dollars)
Kuzbass Power Sales Company	Power	72%	18.2
Yakutugol	Mining	54%	237.9

The material assumptions that drive the estimated fair values of Kuzbass Power Sales Company and Yakutugol are represented by projected prices, sales volumes, coal and power and electricity prices and discount rates. Some of these assumptions materially deviate from our group s historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where Kuzbass Power Sales Company and Yakutugol are located. All these material assumptions are based on the group s projections and are subject to risk and uncertainty.

Based on the sensitivity analysis carried out as of December 31, 2014, the following minimum changes in key assumptions used in the goodwill impairment test would trigger the impairment of goodwill at Kuzbass Power Sales Company and Yakutugol (the actual impairment loss that we would need to recognize under these hypotheses would depend on the appraisal of the fair values of the reporting unit s assets, which has not been conducted):

0.8% and 18.1% decrease in future planned revenues, respectively;

6.6% and 7.7% point increase in discount rates for each year within the forecasted period, respectively; and

11.4% point decrease cash flow growth rate after the forecasted period at Kuzbass Power Sales Company.

We believe that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

Finance lease

The cost of equipment acquired under the capital (finance) lease contracts is measured at the lower of its fair value or the present value of the minimum lease payments, and reflected in the balance sheet at the measured amount less accumulated depreciation. The cost of the equipment is subject to an annual impairment review as described in note 3(n) to the consolidated financial statements. Capital lease liabilities are divided into long-term and current portions based on the agreed payment schedule and discounted using the lessor s implicit interest rate. Depreciation of assets acquired under the capital (finance) lease is included into depreciation charge for the period.

Accounts receivable

Accounts receivable are stated at net realizable value. If receivables are deemed doubtful, bad debt expense and a corresponding allowance for doubtful accounts is recorded. If receivables are deemed uncollectible, the related receivable balance is charged off. Recoveries of receivables previously charged off are recorded when received. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortized to interest income over the term of the receivable. We review the valuation of accounts receivable on a regular basis. The amount of allowance for doubtful accounts is calculated based on the ageing of balances in accordance with contract terms. In addition to the allowance for specific doubtful accounts, we apply specific rates to overdue balances of its subsidiaries depending on the history of cash collections and future expectations of conditions that might impact the collectibility of accounts of each individual subsidiary. Accounts receivable, which are considered non-recoverable (those aged over three years or due from bankrupt entities) are written off against provision or charged off to operating expenses (if no provision was created in previous periods). Our standard credit terms are 30 days in Russia and Western Europe. We establish extended credit terms for related parties customers which may vary from two days to five years. Our group monitors collectibility of accounts receivable including those from its related parties on an ongoing basis primarily through review of the accounts receivable aging to determine whether accounts receivable are a concern.

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Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in transit, checks and deposits with banks, as well as other bank deposits with an original maturity of three months or less.

Inventories

Inventories are stated at the lower of acquisition/manufacturing cost or market value. Cost is determined on a weighted average basis and includes all costs in bringing the inventory to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

Costs of production in processed and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Coal, nickel and iron ore inventory costs include direct labor, supplies, depreciation of equipment, depletion of mining assets and amortization of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

Market value is the estimated price, at which inventories can be sold in the normal course of business after allowing for the cost of completion and sale. We determine market value of inventories for a group of items of inventories with similar characteristics. The term market means current replacement cost not to exceed net realizable value (selling price less reasonable estimable costs of completion and disposal) or be less than net realizable value adjusted for a normal profit margin. Market value for each group is compared with an acquisition/manufacturing cost, and the lower of these values is used to determine the amount of the write-down of inventories, which is recorded within the cost of sales in the consolidated statements of operations and comprehensive income (loss). When inventories are written down below cost at the close of a fiscal year, such reduced amount is considered the cost basis for subsequent purposes.

As of December 31, 2014 and 2013, the write-down of inventories to their net realizable value was $35.8 million and $68.5 million, respectively. As of December 31, 2014, the most significant increase by $1.9 million in the write-down of inventories is attributable to the mining segment. In 2013, the major part of inventories written down to net realizable value in the previous reporting period was sold out.

Income taxes

Provision is made in the financial statements for taxation of profits in accordance with applicable legislation currently in force in individual jurisdictions. We account for income taxes under the liability method in accordance with FASB ASC 740, Income Taxes (**ASC 740**). Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on the expectations of future taxable income and reversals of the various taxable temporary differences.

ASC 740 prescribes the minimum recognition threshold a tax position must meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Unrecognized income tax benefits of $31.4 million, including interest and penalties of $2.7 million, as of December 31, 2014, and $78.3 million, including interest and penalties of $13.8 million, as of December 31, 2013, were recognized by us in the accompanying consolidated balance sheets.

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Taxes represent our group s provision for profit tax. During 2012-2014, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan. Our group s subsidiaries incorporated in British Virgin Islands are exempt from profit tax. The amendments in the tax legislation of the United States resulted in the decrease in tax rate to 39.55% in 2014-2013, 40.0% in 2012 from 40.5% in 2009-2011. The amendments in the tax legislation of the United Kingdom resulted in the decrease in tax rate from 24% in 2010-2012 to 23% since April 1, 2013 and to 21% since April 1, 2014. In December 2010, the Ukrainian tax legislation was amended to decrease the statutory income tax rate gradually from 25% in 2010 to 23% from April 1, 2011, 21% from January 1, 2012, 19% from January 1, 2013 and 18% from January 1, 2014 and thereafter.

Litigation, claims and assessments

We are subject to various lawsuits, claims and proceedings related to matters incidental to our business. Accruals of probable cash outflows have been made based on an assessment of a combination of litigation and settlement strategies. It is possible that results of operations in any future period could be materially affected by changes in assumptions or by the effectiveness of these strategies.

We record liabilities for potential tax deficiencies. These liabilities are based on management s judgment of the risk of loss. In the event that we were to determine that tax-related items would not be considered deficiencies or that items previously not considered to be potential deficiencies could be considered as potential tax deficiencies (as a result of an audit, tax ruling or other positions or authority), an adjustment to the liability would be recorded through income in the period such determination was made. See Item 8. Financial Information Litigation for a description of various contingencies.

Asset retirement obligations

We have numerous asset retirement obligations associated with our core business activities. We are required to perform these obligations under law or contract once an asset is permanently taken out of service. Most of these obligations are not expected to be paid until many years into the future and will be funded from general resources at the time of removal. Our asset retirement obligations primarily relate to mining and steel production facilities with related landfills and dump areas and mines. Our estimates of these obligations are based on current regulatory or license requirements, as well as forecasted dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of FASB ASC 410, Asset Retirement and Environmental Obligations (**ASC 410**).

In order to calculate the amount of asset retirement obligations, the expected cash flows are discounted using an estimate of the credit-adjusted risk-free rate as required by ASC 410. The credit-adjusted risk-free rate is calculated as a weighted average of risk-free interest rates for Russian Federation bonds with maturity dates that coincide with the expected timing of when the asset retirement activities will be performed, adjusted for the effect of our credit standing. For our U.S. subsidiaries, the credit-adjusted risk-free rate is calculated as a weighted average of risk-free interest rates for U.S. treasury bonds with maturity dates that coincide with the expected timing of when the asset retirement activities will be performed, adjusted for the effect of our credit standing.

Shipping and handling costs

We classify all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses. These costs totaled $928.1 million, $1,117.0 million and $1,140.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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Comprehensive income

FASB ASC 220, Comprehensive Income (**ASC 220**), requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities and on derivative financial instruments, as well as pension liabilities not recognized as net periodic pension cost. For the years ended December 31, 2014, 2013 and 2012, in addition to net income, total comprehensive income included the effect of translation of the financial statements denominated in currencies other than the reporting currency (in accordance with ASC 830), changes in the carrying values of available-for-sale securities, and change in pension benefit obligation subsequent to the adoption of FASB ASC 715, Compensation-Retirement Benefits (**ASC 715**). In accordance with ASC 715, we recognize actuarial gains and losses, prior service costs and credits and transition assets or obligations (the full surplus or deficit in their plans) in the balance sheet. As of December 31, 2014 and 2013, the amount of comprehensive income included the effect of curtailment and actuarial gains and losses. Accumulated other comprehensive (loss) income is comprised of the following components:

	December 31, 2014	**December 31, 2013**
	(In millions of U.S. dollars)	
Cumulative currency translation adjustment	971.8	(68.8)
Unrealized losses on available-for-sale securities		(1.3)
Pension adjustments net of related income taxes of $8.2 million in 2014 and $6.7 million in 2013	0.6	22.5
Total accumulated other comprehensive income (loss)	972.4	(47.6)

Stock-based compensation

We apply the fair-value method of accounting for employee stock-compensation costs as outlined in FASB ASC 718, Compensation Stock Compensation (**ASC 718**). During the years ended December 31, 2014, 2013 and 2012, we did not enter in any employee stock-compensation arrangements.

Segment reporting

According to FASB ASC 280, Segment Reporting (**ASC 280**), segment reporting follows our internal organizational and reporting structure. Our operations are presented in three business segments as follows:

Mining segment, comprising production and sales of coal (metallurgical and steam), iron ore, coke and chemical products and limestone, which supplies raw materials to the steel and power segments and also sells substantial amounts of raw materials to third parties;

Steel segment, comprising production and sales of semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat products, high value-added metal products, including forgings, stampings and wire products, as well as ferrosilicon; and

Power segment, comprising generation and sales of electricity and heat energy, which supplies electricity and heat energy to the mining and steel segments and also sells a portion of electricity and heat energy to third parties.

In accordance with adopted accounting policies, our group also prepares disclosure of revenue information by product line within each reportable segment. The reported product lines sales comprise not less than 75% of total segment revenue from third parties and represent the key products in each reportable segment.

Financial instruments

The carrying amount of our financial instruments, which include cash equivalents, marketable securities, non-marketable debt securities, cost method investments, accounts receivable and accounts payable, and short-term borrowings approximates their fair value as of December 31, 2014 and 2013. For long-term borrowings, the difference between fair value and carrying value is shown in note 15 to our consolidated financial accounts. We have determined, using available market information and appropriate valuation methodologies, such as discounted cash flows, the estimated fair values of financial instruments. Since different entities are located and operate in different regions of Russia and elsewhere with different business and financial market characteristics, there are generally very limited or no comparable market values available to assess the fair value of our debt and other financial instruments. The cost method investments are shares of Russian companies that are not publicly traded and their market value is not available. It is not practicable for us to estimate the fair value of these investments, for which a quoted market price is not available because we have not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation would be excessive considering the materiality of our instruments. Therefore, such investments are recorded at cost.

Guarantees

In accordance with FASB ASC 460, Guarantees (**ASC 460**), the fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently re-measured to reflect the changes in the underlying liability. The expense or re-measurement adjustments are included in the related line items of the consolidated statements of operations and comprehensive income (loss), based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements, which may result in a further loss to us, but which will only be resolved when one or more future events occur or fail to occur. Our management makes an assessment of such contingent liabilities, which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve our or unasserted claims that may result in such proceedings, we, after consultation with legal or tax advisors, evaluate the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in our consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, we may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Derivative instruments and hedging activities

We recognize our derivative instruments as either assets or liabilities at fair value in accordance with FASB ASC 815, Derivatives and Hedging (**ASC 815**). The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. For the years ended December 31, 2013 and 2012, a gain of $22.5 million ($20.7 million due to the cross currency option with Sberbank and $1.8 million due to the swap agreement with VTB Bank (Austria) AG) and $26.8 million ($20.3 million due to the cross currency option with Sberbank and $6.5 million due to the swap agreement with VTB Bank (Austria) AG), respectively, related to the change in the fair value of derivative instruments was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). For the year ended December 31, 2014, a loss of $343.7 million ($254.2 million due to the cross currency option with Sberbank and $89.5 million due to the swap agreement with VTB Bank (Austria) AG) related to the change in the fair value and termination of the swap instrument was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). In December 2014, 20.9 billion rubles ($678.0 million as of the dates when facilities were converted in U.S. dollars) were transferred in U.S. dollars due to the existence of cross currency options with Sberbank, described in note 15 to the consolidated financial statements. As of December 31, 2014 and 2013, the outstanding balance included in debt outstanding was $678.0 million and $597.6 million, respectively. On December 29, 2014, the swap agreement with VTB Bank (Austria) AG was early terminated. As of December 31, 2014, the amount of $101.9 million due to VTB Bank (Austria) AG was recorded within accrued expenses and other current liabilities in the consolidated balance sheet. In 2015, we entered into litigation proceedings with Sberbank and VTB Bank (Austria) AG in respect of such cross currency option and swap agreement. See Item 8. Financial Information Litigation Debt litigation. There were no foreign currency forward and options contracts outstanding as of December 31, 2014.

Investments

We recognize all our debt and equity investments in accordance with FASB ASC 320, Investments Debt and Equity Securities (**ASC 320**). At acquisition, we classify debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. At each reporting date we reassess the appropriateness of the classification.

Held-to-maturity securities

Investments in debt securities that we have both the ability and the intent to hold to maturity are classified as held-to-maturity and measured at amortized cost in the consolidated financial statements.

Trading securities

Investments (debt or equity), which we intend to sell in the near term, and which are usually acquired as part of our established strategy to buy and sell, generating profits based on short-term price movements, are classified by us as trading securities. Changes in fair value of trading securities are recognized in earnings.

Available-for-sale securities

Investments (debt or equity) which are not classified as held-to-maturity or trading are classified as available-for-sale. Change in their fair value is reflected in other comprehensive income.

Recoverability of equity method and other investments

Our management periodically assesses the recoverability of our group s equity method and other investments. For investments in publicly traded entities, readily available quoted market prices are an indication of the fair value of the investments. For investments in non-publicly traded entities, if an identified event or change in circumstances requires an evaluation, management assesses their fair value based on valuation techniques including discounted cash flow estimates or sales proceeds, external appraisals and market prices of similar investments as appropriate.

Our management considers the assumptions that a hypothetical market-place participant would use in his analysis of discounted cash flows models and estimates of sales proceeds. If an investment is considered to be impaired and the decline in value is other than temporary, we record an impairment loss.

Discontinued operations

FASB ASC 205 Discontinued operations (**ASC 205**) sets forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A component or group of component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable or an operating segment, a reporting unit, a subsidiary, or an asset group.

ASC 205 uses a single accounting model to account for all long-lived assets to be disposed of (by sale, abandonment, or distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation, as specified in FASB ASC 205. A long-lived asset group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with ASC 360, a loss is recognized for any write-down to fair value less cost to sell. A gain is recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized resulting from the sale of the asset disposal group is recognized at the date of sale.

In accordance with ASC 205, a subsidiary is reported as a discontinued operation when both of the following conditions are met:

- the operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction;

- the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement for current and prior periods reports the results of operations of the component, including any gain or loss recognized from the sale or write-down, in discontinued operations. The results of operations of a component classified as held for sale are reported in discontinued operations in the periods in which they occur. The results of discontinued operations, less applicable income taxes (benefit), are reported as a separate component of income before extraordinary items (if applicable).

In accordance with amendments in ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment (**ASU 2014-08**) of ASC 205, that are effective for public business entities for the annual periods beginning on or after December 15, 2014 and interim periods within those years, a discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results when any of the following occurs:

- the component of an entity or group of components of an entity meets the criteria in paragraph 205-20-45-1E to be classified as held for sale (approval of management, immediate sale in its present conditions, active program for searching the buyer, price and etc.);

- the component of an entity or group of components of an entity is disposed of by sale;

the component of an entity or group of components of an entity is disposed of other than by sale in accordance with paragraph 360-10-45-15 (for example, by abandonment or in a distribution to owners in a spinoff).

We are currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-08 on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customer

In May 2014, the FASB issued Accounting Standards Update (**ASU**) ASU 2014-09, Revenue from Contracts with Customers (**ASU 2014-09**), which will replace most existing revenue recognition

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guidance. The core principle of this update is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The amendments require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments.

ASU 2014-09 provides alternative methods of retrospective adoption and is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early application is not permitted.

We are currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-09 on our consolidated financial statements.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (**ASU 2014-11**).

This update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in ASU 2014-11 also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings.

The amendments in ASU 2014-11 are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted.

The adoption of ASU 2014-11 is not expected to have a material impact on our consolidated financial statements.

Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (**ASU 2014-15**), which requires management to evaluate, in connection with preparing financial statements for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and provide related disclosures.

ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted.

We are currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2014-15 on our consolidated financial statements.

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Pushdown Accounting

In November 2014, the FASB issued ASU 2014-17, Business Combinations Pushdown Accounting (**ASU 2014-17**). The amendments in this update provide an acquired entity with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 is effective from November 18, 2014.

The adoption of ASU 2014-17 is not expected to have a material impact on our consolidated financial statements.

Elimination of Extraordinary Reporting

In January 2015, the FASB issued ASU 2015-01, Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (**ASU 2015-01**). The new guidance eliminates the separate presentation of extraordinary items, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or infrequently occurring.

ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption.

The adoption of ASU 2015-01 is not expected to have a material impact on our consolidated financial statements.

Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (**ASU 2015-02**). The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities.

ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models from four to two. In addition, the new standard simplifies the FASB Accounting Standards Codification and improves current guidance by: (i) placing more emphasis on risk of loss when determining a controlling financial interest; (ii) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a Variable Interest Entity (**VIE**); and (iii) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period.

We are currently evaluating the impact of ASU 2015-02 on our consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (**ASU 2015-03**), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

ASU 2015-03 is effective retrospectively for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period.

We are currently in the process of determining the method of adoption and assessing the impact of adoption of ASU 2015-03 on our consolidated financial statements.

Trend Information

Demand

Mining. The demand for coking coal is dependent on the steel industry, which is directly tied to global economic cycles. In 2012, demand for internationally traded metallurgical coal grew by 8.9% with record coal imports seen into both China and India in the first half of the year, according to CRU. In 2013, international metallurgical coal demand grew by 10.2%, according to CRU. The main reason for the increase was a new record in Chinese imports of coking coal which rose by 22 million tonnes, according to Platts. In 2014, China s coking coal imports fell by 13 million tonnes due to growing usage of domestic material and a slowdown in demand, according to Platts. As a result, global metallurgical coal imports stagnated with a slight decrease of 1.1% in 2014, according to CRU.

The steam coal market is driven by non-steel related factors, such as growth in electricity consumption, balance between supply and demand and seasonality. In 2012, global steam coal import demand increased by 12.6% due to strong Asian imports, according to CRU. In 2013, steam coal import demand rose by 3.1% mainly due to fast-growing demand from India, according to CRU. In 2014, India continued to increase its demand for imported steam coal, as a result of which global steam coal import demand increased by 2.0% compared to 2013, according to CRU.

In 2012, global iron ore demand increased by 2.6% due to increased pig iron production, according to AME. Global iron ore demand growth was stronger in 2013, increasing by 6.3% as pig iron production rose by 4.8%, according to AME. In 2014, world pig iron production grew at a slower pace of 1.4%, as a result of which global iron ore demand increased by 1.6%.

Steel. Russia is our largest market for steel products. In 2012, Russian rolled steel consumption grew by 6.2% and reached 45.1 million tonnes, according to Metal Expert. In 2013, Russian rolled steel consumption grew by an additional 1.5% and reached a record level of 45.8 million tonnes, according to Metal Expert. In 2014, Russian rolled steel consumption remained at the level of 2013 and amounted to 45.7 million tonnes, according to Metal Expert.

The volume of steel products exports from Russia declined by 9.2% in 2013 and amounted to 23.4 million tonnes due to the greater attractiveness of the domestic market, according to Metal Expert. In 2014, exports of steel products increased by 4.1% and reached 24.4 million tonnes as a result of the ruble devaluation, according to Metal Expert.

In 2013, imports of steel decreased by 2% and reached 7.1 million tonnes due to increased deliveries of Russian producers, according to Metal Expert. Imported steel comprised 15.5% of the Russian steel market, according to Metal Expert. In 2014, imports declined by 22.6% and amounted to 5.5 million tonnes, according to Metal Expert. The decline was due to the ruble devaluation and growth in supplies of domestic producers.

Power. In 2014, the electricity output of our generating facilities decreased by 7% as compared to 2013. Heat energy generated for sale decreased by 9%.

The reduction in market demand for electricity energy has resulted in the need to adjust undertakings and completion schedules with respect to power industry companies investment programs. Currently the Russian government is analyzing the progress made on these programs, particularly in light of the current economic downturn, in an effort to clarify the timeline for installation of the necessary production capacities. It is expected that these decisions will result in a new long-term agreement with the Russian government regarding the regulatory scheme of the regulated capacity market which will determine the profitability of this market.

Sales

Mining. In 2015, we expect sales volumes of our mining segment to remain at the level of 2014 with an increase in the share of exports due to the increasing volumes of production at the Elga coal deposit. We believe that our policy of concluding long-term contracts for coal and iron ore concentrate sales strengthens our relationships with our customers and gives us long-term presence in both the domestic and export markets.

Steel. Our steel segment sales volumes are expected to increase in 2015 due to the increased production at the universal rolling mill resulting in an increase of structural shapes and rails sales. In addition, we believe that our strategy aimed at increasing the efficiency of the existing distribution network in conjunction with direct sales from our plants to the largest customers allows us to strengthen our leading position in the market, to provide us with greater stability in steel sales and to improve our cash flow in the current economic slowdown.

Power. In 2015, we expect sales volumes of our power segment to remain at 2014 levels. We do not expect that consumption by small and mid-sized businesses and households, which are also customers of power and heat-supply companies, will change significantly. We plan to expand our distribution channels to build a new customer base among small and mid-sized businesses, as well as public utilities. We also plan to optimize our production capacity through further integration of our intra-group assets. We hope that further integration of our power assets, as well as diversification of our customer portfolio will allow us to avoid a fall in power segment sales caused by a decrease in demand from large industrial companies that are shifting their business from power supply companies.

Inventory

Overall, our inventory decreased by $767.2 million, or 54.5%, to $640.7 million as of December 31, 2014 from $1,407.9 million as of December 31, 2013, due to the decrease in finished goods production costs, which was due to the decrease in raw materials costs as well as the decrease in production volumes in the steel segment as a result of the decline in steel products demand.

Costs

Mining. Within our mining segment, we expect our iron ore cash costs per tonne to increase in 2015 as a result of increasing prices of power, explosives, automotive tires and tubes for open pit equipment and land use fees, while coal cash costs per tonne should remain relatively stable in 2015 as a result of increasing operational efficiency and decreasing semi-fixed costs.

Steel. Excluding the effects of imposition of international sanctions against Russia and exchange rate fluctuations, our steel cash costs per tonne should remain relatively stable in 2015 as a result of achieving cost savings, as well as efficiency and output gains arising as a result of our targeted capital investment program. Specifically, as we continue to introduce operational and technical changes at our plants allowing us to better integrate their products, we expect to be better able to control our costs. The increasing use of continuous casters should provide both efficiency and production increases.

Power. We expect that in 2015 the cost of the production of electricity and heat energy will increase due to an increase in the prices of key raw materials, particularly natural gas, as well as some ancillary materials. We intend to maintain strict control over costs, which should enable us to cut expenditures by reducing fixed production costs, optimizing administrative expenses and increasing productivity to satisfy increased market demand in some regions.

Seasonality

Seasonal effects have a relatively limited impact on our results. Nevertheless, a slowing of demand and, thus, a reduction in sales volumes (and a related increase in inventories) is typically evident in the first and fourth

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quarters of the financial year as a result of the general reduction in economic activity associated with the New Year holiday period in Russia and elsewhere. We maintain larger stockpiles of scrap during the winter months in order to avoid potential supply disruptions due to inclement weather. We are dependent on the Russian construction market, which also experiences slowdowns in the winter months. Our mining segment revenues generally have the same seasonality as the steel segment since coking coal and iron ore are primarily used in the manufacture of steel and are closely linked to steel consumption. By contrast, our power segment sales volumes are generally higher in the first and the fourth quarters of the year, due to increased electricity and steam consumption in the winter period.

Consumption of combustive, lubricative and energy supplies during the winter months is generally higher than during the rest of the year. In addition, railroad carriers demand that iron ore concentrate be fully dried and coal concentrate be partially dried for transportation during the winter months, resulting in higher costs during that time.

Item 6. *Directors, Senior Management and Employees*

Directors and Executive Officers

Board of Directors

Name	Year of Birth	Position
Igor V. Zyuzin	1960	Chairman, Chief Executive Officer of Mechel Mining
Oleg V. Korzhov[4]	1970	Director, Chief Executive Officer, Chairman of Management Board
Alexey G. Ivanushkin[4]	1962	Director, Chief Operating Officer First Deputy Chief Executive Officer, Member of Management Board
Viktor A. Trigubko[4]	1956	Director, Senior Vice President Government Relations
A. David Johnson[1][2][4]	1937	Director
Igor S. Kozhukhovsky[1][3][4]	1956	Director
Vladimir V. Gusev[1][2][3]	1945	Director
Yuriy N. Malyshev[1][3][4]	1939	Director
Vladimir Yu. Korovkin[1][2][3]	1960	Director

(1) Independent Director under the applicable NYSE regulations and Russian regulations.
(2) Member of the Audit Committee of the Board of Directors.
(3) Member of the Committee on Appointments and Remuneration.
(4) Member of the Committee on Investments and Strategic Planning.

Igor V. Zyuzin has been Chairman of our Board of Directors since July 2010. He was our Chief Executive Officer from December 2006 to June 2010 and Chairman of our Management Board from September 2007 to June 2010. He served as Chairman of our Board of Directors from March 2003, when Mechel was founded, to December 2006 and has been a member of our Board of Directors since that time. Mr. Zyuzin has been a member of the Board of Directors of Mechel Mining since April 2008 and Chief Executive Officer of Mechel Mining since July 2011. Mr. Zyuzin has also served as Chairman of the Board of Directors of Southern Kuzbass Coal Company since May 1999 and has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since 2001 and a member of the Board of Directors of Yakutugol since October 2007. He has served as Chairman of the Board of Directors of Yakutugol since June 2013. From July 2011 to April 2014, he was Chairman of the Management Board of Mechel Mining. From April 2008 to June 2011, Mr. Zyuzin served as Chairman of the Board of Directors of Mechel Mining. Mr. Zyuzin has over

28 years of experience in the coal mining industry. Mr. Zyuzin has a degree in technology and complex mechanization of underground mining from the Tula Polytechnic Institute. Mr. Zyuzin also has a degree in mining engineering economics and a Ph.D. in technical sciences in the coal mining field. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 67.42% of our common shares. See Item 7. Major Shareholders and Related Party Transactions.

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Oleg V. Korzhov has been a member of our Board of Directors since June 2014. Mr. Korzhov has been our Chief Executive Officer and Chairman of our Management Board since January 2014. He was our Senior Vice President for Economics and Management from February 2012 to December 2013. He has been a member of our Management Board since March 2009. Mr. Korzhov was our Senior Vice President for Business Planning and Analysis from November 2011 to February 2012, and our Vice President for Business Planning and Analysis from April 2009 to October 2011. Mr. Korzhov has been a member of the Board of Directors of Mechel Mining since June 2011 and Chelyabinsk Metallurgical Plant since June 2014. He was a member of the Board of Directors of Port Posiet, Beloretsk Metallurgical Plant and Mecheltrans from 2010 to 2014, Southern Kuzbass Power Plant from 2009 to 2014, Kuzbass Power Sales Company from 2010 to 2014, Chelyabinsk Metallurgical Plant from 2009 to 2011 and Vyartsilya Metal Products Plant from 2008 to 2010. From July 2008 to April 2009, he was Deputy Chief Executive Officer for Economics and Finance of Mechel-Steel Management. From September 2005 to January 2006, he served as Economic Planning Director of Mechel and from February 2006 to July 2008 he held the same position at Mechel-Steel Management. From 2003 to 2005, Mr. Korzhov was Director for Finance and Economics of EvrazHolding OOO. From 1998 to 2003, he was Deputy Director for Economic Analysis and Pricing and then Director for Economics of Nizhniy Tagil Iron and Steel Works OAO. Mr. Korzhov has a degree in economics and management in metallurgy from the Urals Polytechnic Institute and a degree in general management from the Academy of National Economy under the Government of the Russian Federation. Mr. Korzhov also has a Ph.D. in economics.

Alexey G. Ivanushkin has been a member of our Board of Directors since June 2013. Mr. Ivanushkin has been our Chief Operating Officer First Deputy Chief Executive Officer and a member of our Management Board since August 2014. He has also been Chief Executive Officer of Oriel Resources Ltd. since April 2009. He has been a member of the Board of Directors of Oriel Resources Ltd. since October 2008 and a member of the Board of Directors of Southern Urals Nickel Plant since May 2009. He has also served as Chairman of the Board of Directors of Southern Urals Nickel Plant since May 2010. He was a member of our Board of Directors from March 2003 to July 2009, and served as our Chief Operating Officer from January 2004 to February 2009. Mr. Ivanushkin held the position of our Chief Executive Officer from March 2003 to January 2004. Mr. Ivanushkin served as Chairman of the Board of Directors of Chelyabinsk Metallurgical Plant from June 2002 to June 2009. From June to October 2004, he was Chief Executive Officer of Southern Kuzbass Coal Company. From December 1999 to April 2002, Mr. Ivanushkin served as Chief Executive Officer of Chelyabinsk Metallurgical Plant. From 1993 to November 1999, he was Director of the Department of Ferrous Metals and Ferroalloys in the Moscow office of Glencore International. Mr. Ivanushkin has a degree in economics and international relations from the Moscow State University of International Relations (MGIMO).

Victor A. Trigubko has been a member of our Board of Directors since June 2012 and our Senior Vice President Government Relations since August 2006. Previously, he was our Vice President Government Relations from 2005 to August 2006. From 2003 to 2005, he was our Vice President for Representation in Central and Eastern Europe, Chairman of the Board of Directors of Mechel Campia Turzii S.A. and a member of the Board of Directors of Mechel Targoviste S.A. From 2002 to 2003, Mr. Trigubko was Director of Mechel International Holdings AG s representative office in Romania. From 1997 to 2002, he was Head of Izhstal s representative office in Moscow. From 1992 to 1997, he held various executive positions in the metallurgical company Unibros Steel Co. LTD, including Deputy General Director. Mr. Trigubko also worked in the Foreign Relations Department of the USSR State Committee for Labor and Social Issues and in the USSR Trade Representation Office in Romania. Mr. Trigubko has a degree in economics from the Kalinin State University.

A. David Johnson has been a member of our Board of Directors since October 2004. He served as Chairman of the Board of Directors of Neuerth Coal Mining PVT Ltd from 2008 to 2014 and a member of the Board of Directors of Coal Energy S.A. from 2011 to 2014. Mr. Johnson was Chairman of the Board of Directors of Joy Mining Machinery

UK Ltd from 2003 to 2008, and Managing Director of Joy Mining Machinery UK Ltd from 1990 to 2002. From 1984 to 1990, Mr. Johnson was Managing Director of Dosco Overseas Engineering, a U.K.-based mining equipment manufacturer. From 1990 to 1992, he served as President of the Association of British Mining Equipment Companies. He also worked at the U.K. National Coal Board from 1953 to 1960. In

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1998, he was awarded the Order of Friendship by the Russian government for services to the Russian coal industry. Mr. Johnson is a qualified mining engineer having obtained the U.K. Mining Qualifications Board Certificate in 1959.

Igor S. Kozhukhovsky has been a member of our Board of Directors since June 2008. Mr. Kozhukhovsky has been General Director of Management APBE ZAO since June 2008. He also holds the position of Deputy General Director for Development of the state information system of the fuel and energy complex in the Federal State-Funded Institution Russian Energy Agency of the Ministry of Energy of the Russian Federation and is a member of the Board of Directors of CCS-Group OJSC. From August 2005 to July 2013, Mr. Kozhukhovsky was General Director of APBE ZAO, a forecasting agency engaged in the electric power sector. From 1999 to 2008, Mr. Kozhukhovsky held various positions at RAO UES, including Head of the Economic Policy Department. From 1997 to 1999, he was Deputy Minister of Fuel and Energy of the Russian Federation. Mr. Kozhukhovsky has degrees in automation of metallurgical production engineering and mining electrical engineering from the Siberian Metallurgical Institute. He also has a Ph.D. in economics.

Vladimir V. Gusev has been a member of our Board of Directors since July 2009. In 2008, Mr. Gusev held the position of Vice President for Finance of the State Corporation Olympstroy. From 2005 to 2008, he was Deputy Head of the Federal Tax Service of the Russian Federation. From 1999 to 2005, he was First Deputy Minister of Taxes and Levies of the Russian Federation. Mr. Gusev has a law degree from the Leningrad State University. He also has a Ph.D. in economics and is an associate professor. He was awarded several national awards, including in 2000, by the Decree of the President of the Russian Federation, the title of Honored Economist of the Russian Federation. Mr. Gusev has authored more than 30 scientific papers and publications.

Yuriy N. Malyshev has been a member of our Board of Directors since June 2013. Mr. Malyshev is currently Director of the State Geological Museum of V.I. Vernadsky. He has been President of the Academy of Mining Sciences of Russia since 1993. Mr. Malyshev also serves as Chairman of the Board of Directors of OShK Soyuzspetsstroy ZAO. From 1999 to 2013, he was President of the Non-profit Partnership Russian Mining Operators. Mr. Malyshev has almost 50 years of experience in various executive positions in the coal mining industry. He is a member of the Russian Academy of Sciences and has a D.Sc. in technical sciences. He has the honorary title of Honored Worker of Science and Technology of the Russian Federation. He is the recipient of several prizes and awards, including the order For Merit to the Motherland of the third grade, the Order of Honour and all three grades of the Miner s Glory order. Mr. Malyshev has a degree in mining from the Kemerovo Mining Institute.

Vladimir Yu. Korovkin has been a member of our Board of Directors since June 2014. From June 2011 to June 2014, he served as Chairman of the Board of Directors of Mechel Mining. Since 1995, Mr. Korovkin has held various positions at Federal Stock Corporation OAO, including President from 1999 to 2004 and Chairman since 2004. From 1982 to 1995, he held various positions at the Institute of World Economy and International Relations of the Russian Academy of Sciences. Mr. Korovkin has a degree in economic geography of foreign countries and a Ph.D. in economics from the Lomonosov Moscow State University.

All of our current directors were elected on June 30, 2014, and their terms expire on the date of our next annual general shareholders meeting, which will take place not later than June 30, 2015. The business and mailing address for all our directors and executive officers is Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation.

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Executive Officers

Name	Year of Birth	Position
Oleg V. Korzhov	1970	Chief Executive Officer, Director, Chairman of Management Board
Alexey G. Ivanushkin	1962	Chief Operating Officer First Deputy Chief Executive Officer, Director, Member of Management Board
Victor A. Trigubko	1956	Senior Vice President Government Relations, Director
Andrey A. Slivchenko	1975	Vice President Finance, Member of Management Board
Elena V. Selivanova	1962	Vice President for Human Resources and Social Policy, Member of Management Board
Valery A. Sheverdin	1963	Vice President for Corporate Security, Member of Management Board
Irina N. Ipeeva	1963	Director of Legal Department, Member of Management Board
Pavel V. Shtark	1969	Chief Executive Officer of Mechel Mining Management, Member of Management Board
Vladimir I. Tytsky	1950	Chief Executive Officer of Mechel-Steel Management, Member of Management Board
Petr A. Pashnin	1977	Chief Executive Officer of Mechel Energo
Alexey V. Lebedev	1974	Chief Executive Officer of Mecheltrans Management, Member of Management Board

For brief biographies of Messrs. Korzhov, Ivanushkin and Trigubko, see Board of Directors.

Andrey A. Slivchenko has been our Vice President Finance since May 2014 and a member of our Management Board since August 2014. From April 2014 to May 2014, Mr. Slivchenko was our Director for Finance. From January 2012 to September 2012, he served as Chief Executive Officer and from November 2011 to January 2012 as Chief Operating Officer of Pharmacy Chain 36.6 OAO. From July 2007 to April 2011, he was Vice President for Corporate Finance at United Aircraft Corporation JSC. From August 2003 to July 2007, Mr. Slivchenko held the position of Director for Corporate Finance at Pharmacy Chain 36.6 OAO. From January 2001 to May 2003, he was Director for Corporate Finance at Ilim Pulp Enterprise ZAO. From August 1997 to February 1999, he held various positions at Yukos Oil Company, including Head of the Financial Markets Department of Yukos-Moskva OOO. Mr. Slivchenko received a bachelor s degree in economics and a master s degree in management from the International University in Moscow.

Elena V. Selivanova has been our Vice President for Human Resources and Social Policy since April 2009 and a member of our Management Board since September 2007. From January 2007 to April 2009, she was our Director of the Human Resources Department. From April 2004 to November 2006, Ms. Selivanova held the position of Executive Director for Human Resources of Volgotanker. From March 2002 to March 2004, she was Director of the Department for Organizational Development and Personnel Management of Firma Omega-97 OOO. From November 1999 to March 2002, Ms. Selivanova was Director of the Personnel Service and Deputy Director for Personnel at Vimpel-Kommunikatsii OAO. From July to October 1999, she was Director for Personnel at Personalny Telefon OOO. From March 1998 to February 1999, she was Personnel Manager at Bakster Export ZAO. Ms. Selivanova graduated from the Moscow State Cultural Institute and the Higher Psychology College under the Russian Academy of Sciences with a degree in personnel management.

Valery A. Sheverdin has been our Vice President for Corporate Security since March 2014 and a member of our Management Board since August 2014. From June 2009 to March 2014, Mr. Sheverdin held the positions of

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our Director of the Department of Safety of Property Complex and Director of the Corporate Security Department. From April 2011 to March 2014, he was Chief Executive Officer of Mechel-Garant OOO. From July 2007 to April 2011, he worked in PSC Mechel-Centre OOO, including as General Director from December 2007. From April 2004 to June 2007, Mr. Sheverdin held various positions in Lukom-A Agency ZAO. From February 2001 to March 2003, he was Chairman of the Belgorod regional office of the Russian Fund of Social Progress. From September 1995 to February 2001, he held various executive positions in security agencies. From November 1981 to August 1995, he served in the Armed Forces of the Russian Federation. Mr. Sheverdin graduated from the Moscow Border Institute of the Federal Security Service of the Russian Federation with a degree in law and the Kolomna Higher Artillery Command College of the October Revolution.

Irina N. Ipeeva has been Director of our Legal Department since April 2009 and a member of our Management Board since September 2007. She has been a member of the Board of Directors of Southern Kuzbass Coal Company since 2007 and a member of the Board of Directors of Mechel Mining since June 2014. From September 2007 to April 2009, she was our General Counsel, Deputy Director of the Legal Department Director of the Department of Corporate Governance and Property. From 2003 to 2007, Ms. Ipeeva held the position of General Counsel and Director of the Department of Corporate Governance and Property. From February to July 2006, she was Director of the Department of Corporate Governance and Property of Mechel-Steel Management. From March to June 2003, Ms. Ipeeva held the position of Deputy General Director for Property Matters of Uglemet-Trading OOO. From December 2001 to March 2003, she was Head of the Department for Regulation of Corporate Relations and Property of Southern Kuzbass Coal Company and, from January to November 2001, she was Head of the Share Capital Department. From August 1988 to January 2001, Ms. Ipeeva worked at the Kuzbassugleobogashcheniye Industrial Amalgamation and the Tomusinskaya Washing Plant, where she held positions ranging from a legal adviser to head of the legal department. Ms. Ipeeva has a degree in law from the Kuibyshev State University.

Pavel V. Shtark has been Chief Executive Officer of Mechel Mining Management since July 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Moscow Coke and Gas Plant since June 2013, a member of the Board of Directors of Elgaugol since August 2013 and a member of the Board of Directors of Mechel Mining, Southern Kuzbass Coal Company, Korshunov Mining Plant and Yakutugol since June 2014. He was a member of the Management Board of Mechel Mining from July 2013 to April 2014. From October 2012 to July 2013, he held the position of Deputy General Director for Coke and Chemical Products Production Managing Director of Moscow Coke and Gas Plant. From April 2008 to October 2012, Mr. Shtark served as Deputy Director, Director and Managing Director of Mechel Coke. From October 1996 to March 2008, he was Head of the Workshop, Chief Engineer of Coke and Chemical Products Production at Nizhniy Tagil Iron and Steel Works OAO. Mr. Shtark has a degree in equipment and technology of welding production from the Urals State Technical University and a degree in chemical technology of natural energy carriers and carbon materials from the same university.

Vladimir I. Tytsky has been Chief Executive Officer of Mechel-Steel Management since October 2012 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since May 2013. He was a member of the Board of Directors of Moscow Coke and Gas Plant from 2008 to 2014 and a member of the Board of Directors of Izhstal, Beloretsk Metallurgical Plant, Urals Stampings Plant and Vyartsilya Metal Products Plant from 2013 to 2014. From October 2010 to September 2012, he held the position of Deputy General Director for Coke and Chemical Products Production of Mechel Mining Management. From July 2007 to September 2012, he was Managing Director of Moscow Coke and Gas Plant. From October 2006 to July 2007, he was General Director of Moscow Coke and Gas Plant. From 2003 to 2006, Mr. Tytsky held the positions of Mechel Group s Senior Vice President for Strategy and Integration and Senior Vice President for Sales and Purchases. From 2002 to 2003, Mr. Tytsky was Deputy and then First Deputy General Director at Coalmet Trading. From 1972 to 2002, he held various positions at Chelyabinsk Metallurgical Plant, including Deputy General Director for

Marketing and Distribution. In 2000, he was awarded the title of Honored Metallurgist. Mr. Tytsky has a degree in chemical process engineering from the Dnepropetrovsk Metallurgical Institute.

Petr A. Pashnin has been Chief Executive Officer of Mechel Energo since November 2013. He has been a member of the Board of Directors of Kuzbass Power Sales Company since May 2014 and a member of the Board of Directors of Tomusinsk Energo Management since June 2014. From July to November 2013, he held the position of Technical Director of Mechel Energo. From March 2012 to June 2013, he was Chief Operating Officer of Toplofikatsia Rousse. From September 2011 to February 2012, he served as Head of Energy Efficiency and Energy Audit Department of Mechel Energo. From February 2008 to September 2011, he held various positions at the Chelyabinsk branch of Mechel Energo. From July 1999 to January 2008, he worked at Chelyabinsk Metallurgical Plant, where he held positions ranging from steam turbine operator to heat and power station chief engineer. Mr. Pashnin has a degree in industrial heat power engineering from the Southern Urals State University.

Alexey V. Lebedev has been Chief Executive Officer of Mecheltrans Management since December 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Mecheltrans since April 2014 and a member of the Board of Directors of Port Posiet, Port Kambarka and Port Vanino since June 2014. He served as Chief Executive Officer of Mecheltrans Auto from February 2011 to December 2013 and Director of Motor Transportation Department of Mecheltrans from June 2010 to January 2011. From 2005 to 2010, Mr. Lebedev was Director of Uraltechstroy NN OOO. From 2004 to 2005, he held the position of Deputy General Director of Region Express TK OOO. From 1998 to 2003, he held various positions at UralPromSnab OOO. From 1993 to 1998, he was Head of Railway Transportation Department of Transfero EAFC OOO. Mr. Lebedev has a degree in industrial management from the Izhevsk State Technical University.

Compensation

Our directors and executive officers were paid an aggregate of approximately $7.0 million for services in all capacities provided to us during 2014. The total amount set aside for pension, retirement and other similar benefits for our directors and executive officers as of December 31, 2014 was not material. Our directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

Board of Directors

Members of our Board of Directors are elected by a majority of the voting stock present at our annual general shareholders meeting using a cumulative voting system. Directors are elected to serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors currently consists of nine members, five of whom are independent pursuant to the director independence criteria set forth both in the applicable Russian regulations and NYSE regulations, as well as in the Charter and the Bylaw on the Board of Directors of Mechel OAO. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See Item 10. Additional Information General Meetings of Shareholders for more information regarding the competence of our general shareholders meetings. Some of the members of our Board of Directors, as well as the members of the boards of directors of our subsidiaries, serve pursuant to contracts. These contracts do not provide for any benefits upon termination of their directorship.

Committees of the Board of Directors

Audit Committee

The Audit Committee consists of Vladimir Korovkin, Vladimir Gusev and David Johnson, each of whom is an Independent Director. Our Audit Committee operates pursuant to a bylaw, which is available at *www.mechel.com*. The purpose of this Committee is to assist the Board of Directors with its oversight responsibilities regarding:

the quality and integrity of our financial statements;

our compliance with legal and regulatory requirements;

- the independent auditor s qualifications and independence; and

- the performance of our internal audit function and independent auditor.

Committee on Investments and Strategic Planning

The members of the Committee on Investments and Strategic Planning are David Johnson, Igor Kozhukhovsky, Alexey Ivanushkin, Yuriy Malyshev, Viktor Trigubko and Oleg Korzhov. The Committee on Investments and Strategic Planning defines our strategic goals and defines our priorities. The Committee makes recommendations to the Board of Directors on our dividend policy and on the adjustments to our strategy as required in order to enhance our efficiency. Our Committee on Investments and Strategic Planning operates pursuant to a bylaw, which is available at *www.mechel.com.*

The following sub-committees were set up under the Committee on Investments and Strategic Planning:

- Sub-committee on metallurgical production strategy, with members Alexey Ivanushkin, Viktor Trigubko and Oleg Korzhov;

- Sub-committee on mining production strategy, with members Yuriy Malyshev and David Johnson; and

- Sub-committee on power production strategy, with members Igor Kozhukhovsky and Alexey Ivanushkin.

Committee on Appointments and Remuneration

The members of the Committee on Appointments and Remuneration are Vladimir Korovkin, Vladimir Gusev, Igor Kozhukhovsky and Yuriy Malyshev, each of whom is an Independent Director. The Committee on Appointments and Remuneration has been established to maintain continuity and high professional standards, as well as to work out a competitive remuneration system, within our group. The Committee prepares recommendations to the Board of Directors on candidates for appointment to the Management Board or as our Chief Executive Officer or other executive officers or senior officers of our subsidiaries. It also prepares appraisals of their performance and makes recommendations regarding their remuneration. The Committee also defines the requirements applicable to nominees to the Board of Directors and informs the shareholders of such nominees. The Committee operates pursuant to a bylaw, which is available at *www.mechel.com.*

Management Board

In September 2007, we created a Management Board to provide for greater oversight of our operations. For more information, see Item 10. Additional Information Management Board. The members of the Management Board are set out above under Directors and Executive Officers.

Management Companies

We have four management companies within our group which provide management services to the companies within the mining, steel and power segments and to our companies within our transport division.

In 2014, with the aim of further optimizing the structure of our group, we made the decision to liquidate Mechel Ferroalloys Management.

Mechel Mining Management

Mechel Mining Management was established in July 2008 as a wholly-owned subsidiary of Mechel with the purpose to provide management services to the production subsidiaries within our mining segment. Mechel Mining Management is currently owned by Mechel Mining and performs the functions of the sole executive body of the following companies: Southern Kuzbass Coal Company, Korshunov Mining Plant, Yakutugol, Moscow Coke and Gas Plant, Mechel Coke, Mechel Engineering, Elgaugol and Vzryvprom.

Mechel-Steel Management

Mechel-Steel Management was established in October 2005 as a wholly-owned subsidiary of Mechel with the initial purpose to provide management services to our subsidiaries by performing the functions of their respective management bodies. The company s former name was Mechel Management OOO which was changed in September 2009 in line with the reorganization of our group s management structure. Mechel-Steel Management presently provides management services to our subsidiaries within the steel segment by performing the functions of the sole executive body of Chelyabinsk Metallurgical Plant, Urals Stampings Plant, Izhstal and Bratsk Ferroalloy Plant.

Mechel Energo

Mechel Energo was established in May 2001 under the name of Regional Energy Company ENERGOSBYT OOO. In April 2004, we acquired the company with a view to make the strategic and operational management of our power assets more efficient. The name of the company was changed to its current name in April 2004. Mechel Energo performs the functions of the sole executive body of Southern Kuzbass Power Plant in our power segment.

Mecheltrans Management

Mecheltrans Management was established in March 2010 as a wholly-owned subsidiary of Mechel and since July 1, 2010 provides management services to the companies within our transport division by performing the functions of the sole executive body of Mecheltrans, Mecheltrans Vostok, Port Posiet, Port Kambarka and Port Temryuk.

Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Review Commission are nominated and elected by our shareholders to serve until the next annual general shareholders meeting. Our Chief Executive Officer, a member of our Board of Directors and a member of our Management Board may not simultaneously be a member of the Review Commission. Our Review Commission currently has three members: Denis V. Shamne, Andrey V. Stepanov and Natalya S. Zykova. The powers and duties of our Review Commission are governed by a bylaw approved by our general shareholders meeting.

Internal Control and Audit Department

The Internal Control and Audit Department s main function is to systematically, consistently and independently from our management assess and improve the efficiency of our group s risk management, internal control, corporate governance and information systems. The activities of the Internal Control and Audit Department are governed by the Bylaw on the Internal Control and Audit Department. Natalya S. Zykova serves as the Director of the Internal Control and Audit Department. The Department is functionally subordinated to the Audit Committee of the Board of Directors, and administrated by our Chief Executive Officer.

Corporate Governance Principles

Our corporate governance principles are based on the Russian Corporate Governance Code recommended by the FFMS and supplemented by the obligations of the Board of Directors prescribed by Russian law, our charter and internal rules of procedure. The principles are intended to ensure that we are managed and monitored

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in a responsible and value-driven manner. They include the protection of shareholders rights, comprehensive disclosure and transparency requirements and rules governing conflicts of interest. We are committed to continuing to adapt our corporate governance principles to developments in best-practices. Our corporate governance principles are reflected in our corporate documents, such as:

- the Charter;
- the Bylaw on the Board of Directors;
- the Bylaw on the General Meeting of Shareholders;
- the Bylaw on the General Director;
- the Bylaw on the Collegial Executive Body (Management Board);
- the Bylaw on the Review Commission;
- the Bylaw on the Internal Control and Audit Department;
- the Code of Business Conduct and Ethics;
- the Bylaw on the Prohibition and Prevention of Insider Trading;
- the Bylaw on the Disclosure of Information that may Significantly Impact the Market Value of our Shares;
- the Bylaw on Information Policy;
- the Bylaw on Appointments and Remuneration Committee of the Board of Directors;
- the Bylaw on Investments and Strategic Planning Committee of the Board of Directors;
- the Bylaw on the Audit Committee of the Board of Directors; and

the Code of Corporate Governance.

These documents are available at *www.mechel.com* and *www.mechel.ru*.

We also comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include: (1) the obligation to have at least three independent directors, who shall represent at least one-fifth of the members of the board of directors; (2) the establishment of an audit committee chaired by an independent director and a committee on appointments and remuneration consisting of independent directors, or, if not practicable, of independent directors and members of the board of directors who are not a sole executive body and/or members of the collegial executive body; (3) the establishment of a corporate body responsible for the internal audit (control) and adoption of an internal audit (control) policy; (4) the adoption of a dividend policy; (5) the obligation to notify shareholders about the annual general shareholders meeting not less than 30 days before the date of the meeting; and (6) the obligation to disclose information about the date when the list of persons entitled to participate in a general shareholders meeting is prepared, at least five days prior to such date.

We also comply with applicable corporate governance requirements of the NYSE. The NYSE permits listed companies that are foreign private issuers, such as Mechel, to follow their home jurisdiction governance practice where it differs from the NYSE requirements. In addition, we have voluntarily complied with certain other requirements applicable to U.S. companies under the NYSE Listing Standard 303A. A summary description of the NYSE Listing Standard 303A showing our compliance therewith and/or the alternative corporate governance practices followed by us is available at *www.mechel.com*. See also Item 16G. Corporate Governance.

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Employees

As at December 31, 2014, we employed approximately 67,880 people as follows:

Company	Primary Location	Primary Function	Total Employees	% Unionized
Chelyabinsk Metallurgical Plant	Russia	Steel	16,804	61%
Southern Kuzbass Coal Company and subsidiaries (Tomusinsky Open Pit, Vzryvprom)	Russia	Coal	9,942	73%
Beloretsk Metallurgical Plant	Russia	Steel	6,383	86%
Yakutugol, Neryungry Car Fleet, Elgaugol	Russia	Coal	4,989	94%
Urals Stampings Plant	Russia	Steel	4,141	62%
Korshunov Mining Plant	Russia	Iron ore	3,877	68%
Izhstal	Russia	Steel	3,027	86%
Mechel Service Global (including subsidiaries)	Russia, Europe	Sales and distribution	2,088	0%
Mechel Coke	Russia	Coke	1,703	57%
Southern Kuzbass Power Plant	Russia	Power	1,651	26%
Mechel Materials	Russia	Steel	1,642	32%
Mechel Energo	Russia	Power	1,490	32%
Kuzbass Power Sales Company	Russia	Power	1,279	52%
Donetsk Electrometallurgical Plant	Ukraine	Steel	1,245	54%
Moscow Coke and Gas Plant	Russia	Coke	1,080	60%
Mecheltrans (including subsidiaries)	Russia	Transportation	928	13%
Mechel-Remservice	Russia	Ore mining equipment repair	641	99%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	626	36%
Port Posiet	Russia	Shipping	535	8%
Mechel Engineering	Russia	Scientific research	344	0%
Southern Urals Nickel Plant	Russia	Nickel	315	36%
Mechel Nemunas	Lithuania	Steel	269	29%
Vyartsilya Metal Products Plant	Russia	Steel	255	0%
Port Temryuk	Russia	Shipping	226	0%
Metallurgshakhtspetsstroy	Russia	Capital construction	216	0%
Port Kambarka	Russia	Shipping	210	0%
Pugachevsky Open Pit	Russia	Limestone	177	46%
Shakhtspetsstroy	Russia	Capital construction	174	20%
Kaslinsky Architectural Art Casting Plant	Russia	Steel	163	0%
Mechel Vtormet	Russia	Scrap metal	118	0%
Bluestone	United States	Coal	52	17%
Mechel Carbon	Switzerland, Belgium, Singapore	Sales and distribution	50	0%
Mechel Trading	Switzerland	Sales and distribution	12	0%

Other (including all management companies)	Various	Various	1,228	0%
Total			67,880	61%

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As at December 31, 2013, we employed approximately 71,635 people as follows:

Company	Primary Location	Primary Function	Total Employees	% Unionized
Chelyabinsk Metallurgical Plant	Russia	Steel	16,791	59%
Southern Kuzbass Coal Company and subsidiaries (Tomusinsky Open Pit, Vzryvprom)	Russia	Coal	10,548	74%
Beloretsk Metallurgical Plant	Russia	Steel	6,828	79%
Yakutugol, Dzhebariki-Khaya Underground, Kangalassky Open Pit, Neryungry Car Fleet	Russia	Coal	4,870	95%
Izhstal	Russia	Steel	4,174	81%
Urals Stampings Plant (with branches)	Russia	Steel	4,173	65%
Korshunov Mining Plant	Russia	Iron ore	3,959	68%
Mechel Service Global (including subsidiaries)	Russia, Europe	Sales and distribution	2,405	0%
Mechel Energo	Russia	Power	1,992	39%
Donetsk Electrometallurgical Plant	Ukraine	Steel	1,788	62%
Mechel Coke	Russia	Coke	1,739	60%
Mechel Materials	Russia	Steel	1,422	41%
Kuzbass Power Sales Company	Russia	Power	1,259	53%
Moscow Coke and Gas Plant	Russia	Coke	1,092	68%
Metallurgshakhtspetsstroy	Russia	Capital construction	831	0%
Mecheltrans (including subsidiaries)	Russia	Transportation	822	1%
Southern Kuzbass Power Plant	Russia	Power	773	35%
Mechel-Remservice	Russia	Ore mining equipment repair	770	96%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	620	39%
Port Posiet	Russia	Shipping	540	11%
Mechel Engineering	Russia	Scientific research	357	0%
Cognor Stahlhandel	Europe	Sales and distribution	346	0%
Vyartsilya Metal Products Plant	Russia	Steel	329	0%
Mechel Nemunas	Lithuania	Steel	282	33%
Southern Urals Nickel Plant	Russia	Nickel	274	55%
Port Temryuk	Russia	Shipping	228	0%
Port Kambarka	Russia	Shipping	188	0%
Pugachevsky Open Pit	Russia	Limestone	182	46%
Shakhtspetsstroy	Russia	Capital construction	175	18%
Mechel Vtormet	Russia	Scrap metal	174	0%
Kaslinsky Architectural Art Casting Plant	Russia	Steel	169	0%
Bluestone	United States	Coal	132	22%
Mechel Carbon	Switzerland, Belgium, Singapore	Sales and distribution	48	0%
Mechel Trading	Switzerland	Sales and distribution	18	0%

Other (including all management companies)	Various	Various	1,337	0%
Total			71,635	60%

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As at December 31, 2012, we employed approximately 90,465 people as follows:

Company	Primary Location	Primary Function	Total Employees	% Unionized
Chelyabinsk Metallurgical Plant	Russia	Steel	15,110	63%
Southern Kuzbass Coal Company and subsidiaries (Tomusinsky Open Pit, Vzryvprom)	Russia	Coal	10,509	74%
Beloretsk Metallurgical Plant	Russia	Steel	6,953	79%
Yakutugol, Dzhebariki-Khaya Underground, Kangalassky Open Pit, Neryungry Car Fleet	Russia	Coal	5,087	92%
Izhstal	Russia	Steel	4,777	91%
Urals Stampings Plant (with branches)	Russia	Steel	4,352	68%
Korshunov Mining Plant	Russia	Iron ore	4,017	73%
Mechel Service Global (including subsidiaries)	Russia, Europe	Sales and distribution	3,989	0%
Southern Urals Nickel Plant	Russia	Nickel	2,929	59%
Donetsk Electrometallurgical Plant	Ukraine	Steel	2,704	70%
Mechel Energo	Russia	Power	2,181	35%
Spetsremzavod	Russia	Melting facility repair	2,104	66%
Mechel Targoviste	Romania	Steel	1,964	90%
Mechel Coke	Russia	Coke	1,758	61%
Metallurgshakhtspetsstroy	Russia	Capital construction	1,406	0%
Mechel Materials	Russia	Steel	1,395	37%
Ductil Steel	Romania	Steel	1,310	89%
Moscow Coke and Gas Plant	Russia	Coke	1,212	70%
Mechel Campia Turzii	Romania	Steel	1,062	91%
Mechel-Remservice	Russia	Ore mining equipment repair	985	99%
Mecheltrans (including subsidiaries)	Russia	Transportation	981	0%
Management Metallurgical Equipment Repair	Russia	Melting facility repair	958	47%
Kuzbass Power Sales Company	Russia	Power	865	62%
Southern Kuzbass Power Plant	Russia	Power	802	37%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	610	47%
Tikhvin Ferroalloy Plant	Russia	Ferroalloys	600	0%
Voskhod-Oriel, Voskhod-Chrome	Kazakhstan	Ferroalloys	594	0%
Thermal Grid Company of Southern Kuzbass	Russia	Power	585	0%
Port Posiet	Russia	Shipping	477	16%
Mechel Engineering	Russia	Scientific research	426	0%
Laminorul Plant	Romania	Steel	385	90%
Vyartsilya Metal Products Plant	Russia	Steel	367	0%
Mechel Nemunas	Lithuania	Steel	321	31%

Toplofikatsia Rousse	Bulgaria	Power	303	59%
Mechel Vtormet	Russia	Scrap metal	278	0%
Port Temryuk	Russia	Shipping	246	0%
Port Kambarka	Russia	Shipping	224	0%
Pugachevsky Open Pit	Russia	Limestone	183	53%
Bluestone	United States	Coal	173	25%

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Company	Primary Location	Primary Function	Total Employees	% Unionized
Kaslinsky Architectural Art Casting Plant	Russia	Steel	158	0%
SC Mechel Reparatii Targoviste SRL	Romania	Melting facility repair	141	83%
Shakhtspetsstroy	Russia	Capital construction	139	36%
Invicta Merchant Bar	United Kingdom	Steel	75	23%
Mechel Carbon	Switzerland, Belgium, Singapore	Sales and distribution	47	0%
Mechel Trading	Switzerland, Belgium, Liechtenstein	Sales and distribution	21	0%
Mechel Trading House	Russia	Sales and distribution	13	0%
Other (including all management companies)	Various	Various	4,689	5%
Total			90,465	60%

Set out below is information about membership of our employees in trade unions:

Employees of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant, Southern Urals Nickel Plant, Korshunov Mining Plant, Moscow Coke and Gas Plant, Mechel Coke, Izhstal, Bratsk Ferroalloy Plant, Mechel Materials and Pugachevsky Open Pit are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Urals Stampings Plant are members of the Trade Union of Machinists of the Russian Federation, employees of Chelyabinsk branch of Urals Stampings Plant are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Southern Kuzbass Coal Company and its subsidiaries Tomusinsky Open Pit, Vzryvprom and Shakhtspetsstroy are members of the Russian Independent Trade Union of Coal Industry Workers and of the Independent Trade Union of Miners of Russia.

Employees of Yakutugol, Neryungry Car Fleet and Mechel-Remservice are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Mechel Energo are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Port Posiet are members of the Russian Stevedores Trade Union.

Employees of Mecheltrans separate business unit in the city of Myski are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Southern Kuzbass Power Plant are members of the All-Russian Power Industry Trade Union and of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Kuzbass Power Sales Company are members of the All-Russian Power Industry Trade Union.

Employees of Mechel Nemunas are members of the Trade Union Nemunas.

Employees of Donetsk Electrometallurgical Plant are members of the Trade Union of Workers of Metallurgical and Mining Industry of Ukraine.

We consider our relationships with our employees to be good.

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Item 7. ***Major Shareholders and Related Party Transactions***

The following table sets forth information regarding our major shareholders, which means shareholders that are the beneficial owners of 5% or more of our common shares, as of March 31, 2015, based on the information available to us:

Name of Beneficial Owner	Number of Common Shares	% of Common Shares
Igor V. Zyuzin(1)	280,669,025	67.42%
Irina V. Zyuzina(2)	75,000,000	18.02%
Ksenia I. Zyuzina(2)	75,000,000	18.02%
Kirill I. Zyuzin(2)	75,000,000	18.02%
Other(3)(4)	135,601,720	32.58%

(1) Mr. Zyuzin is the Chairman of our Board of Directors. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 67.42% of the common shares in Mechel through (i) his record ownership of 0.05% of the common shares in Mechel; and (ii) his ownership of 100% of the equity interest in Calridge Limited (**Calridge**). Calridge may be deemed to be the beneficial owner of 67.38% of the common shares in Mechel through (i) its record ownership of 36.58% of the common shares in Mechel; (ii) its ownership of 100% of the equity interest in Armolink Limited (**Armolink**), which is the record owner of 12.78% of the common shares in Mechel; and (iii) its ownership of 10% of the equity interest in Bellasis Holdings Limited (**Bellasis**), which is the record owner of 18.02% of the common shares in Mechel. Further information regarding the shareholdings of Mr. Zyuzin is available in the Schedule 13D filed by him with the SEC.

(2) In November 2014, Mr. Zyuzin transferred his 100% stake in MetHol OOO (**MetHol**) to Mrs. Irina V. Zyuzina, to Ms. Ksenia I. Zyuzina and to Mr. Kirill I. Zyuzin (the **Zyuzin Family Members**). MetHol directly owns 90% of the equity interest in Bellasis and, in such capacity, may be deemed to share beneficial ownership of the 18.02% shareholding held of record by Bellasis. As a result, each of the Zyuzin Family Members may be deemed to share beneficial ownership of the 18.02% shareholding held of record by Bellasis. Further information regarding the shareholdings of the Zyuzin Family Members is available in the Schedule 13D that each Zyuzin Family Member has filed with the SEC.

(3) According to Deutsche Bank Trust Company Americas, as of March 31, 2015, 92,133,558 common ADSs and 53,500,003 GDSs were outstanding, representing 34.99% of our total issued common shares.

(4) We believe our directors and executive officers as a group, other than Mr. Zyuzin, beneficially own less than 1% of our shares.

None of our common shareholders have voting rights which differ from any other holders of our common shares. Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control.

Related Party Transactions

In addition to the below, see note 10 to the consolidated financial statements.

Transactions with related metallurgical plants

In the second half of 2009, certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the **related metallurgical plants**) became related parties to us through our representation on the board of directors, management and other arrangements. In 2009, the companies that had business transactions with us were as follows: Volga Fest, Rostov Electrometallurgical Plant, Vostochnaya Mine, Experimental TES, Zlatoust Metallurgical Plant, Guryevsk Metallurgical Plant, Volgograd Small Diameter Pipe Plant (**VSDPP**) and Engels Pipe Plant. In addition, in

2010 we started transactions with Donetsk Electrometallurgical Plant, Invicta Merchant Bar, Metrus Trading GmbH, MIR Steel, Nytva and Estar Egypt for Industries. In 2012-2014, we continued our operations with the related metallurgical plants, however in 2013-2014 the volume of these transactions declined significantly due to the temporary suspension of operations of certain of the metallurgical plants as well as bankruptcy proceedings initiated against these companies in the fourth quarter of 2013-first half of 2014. These transactions were carried out in the joint interest of both parties in expanding our operations and products range on the steel market and allowing the related metallurgical plants access to our strong supply and sales network.

In August 2011, we acquired 100% of Invicta Merchant Bar, a steel plant located in Queenborough, the United Kingdom. In December 2011, we acquired Donetsk Electrometallurgical Plant.

During the years ended December 31, 2014, 2013 and 2012, we had the following transactions and current balances in settlement with the related metallurgical plants:

Re-selling of goods purchased by our group either from third parties or entities of the former Estar Group to the related metallurgical plants. Proceeds related to these sales amounted to $3.9 million, $25.9 million and $222.8 million in the years ended December 31, 2014, 2013 and 2012, respectively. For part of such transactions, we determined that we functioned as a principal, and the amounts of $3.1 million, $14.3 million and $211.2 million were included in revenue from sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

For the other part of such transactions, we determined that our results should be recognized as operating gains. Therefore, they are reported, net of related costs, within other operating income (expenses), net in the consolidated statements of operations and comprehensive income (loss) in the amount of $nil, $1.5 million and $1.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Revenues from sales of products manufactured by us and services rendered to the related metallurgical plants amounted to $102.6 million, $154.7 million and $202.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Cost of the related metallurgical plants products used in our production amounted to $32.5 million, $100.2 million and $105.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Cost of goods produced by the related metallurgical plants and further sold by us to third party customers amounted to $81.9 million, $513.2 million and $769.2 million, including transportation costs, for the years ended December 31, 2014, 2013 and 2012, respectively. For such transactions, we determined that we functioned as a principal, and the amounts of $83.1 million, $570.5 million and $847.7 million were included in revenue from the sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

The related metallurgical plants used raw materials and semi-finished goods purchased from us. We concluded that our sales to the related metallurgical plants and our purchases from these entities were not in contemplation with each other and are reported separately in the consolidated statements of operations and comprehensive income (loss).

In the second half of 2011, our operations with certain related metallurgical plants (namely VSDPP, Engels Pipe Plant and MIR Steel) started to be carried out on tolling terms. In 2013, such operation started with other related metallurgical plants (namely Zlatoust Metallurgical Plant, Guryevsk Metallurgical Plant and Nytva). Revenues from sales of products (steel pipes, basis steel coils and sheets, long steel) manufactured by the related metallurgical plants for us under the tolling agreements amounted to $151.1 million, $331.4 million and $413.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. The related cost of goods sold for these transactions amounted to $137.3 million, $334.0 million and $403.5 million for the years ended

December 31, 2014, 2013 and 2012, respectively. This cost includes cost of tolling services provided by the related metallurgical plants of $27.8 million, $57.3 million and $47.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

In November 2011, we and the Estar Group entered into the Estar Loan Agreement pursuant to which we granted a loan of $944.5 million. The loan consists of several tranches which bear interest at the range of 1-8.5% per annum. To secure the loan, shares in the major related metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the related metallurgical plants to repay most of the accounts receivable owed to us. According to the Estar Loan Agreement, in the event that the loan is not repaid at maturity (September 30, 2012), we are entitled to enforce the pledge over the pledged related metallurgical plants assets and thereby take control of these assets, subject to approval from the FAS.

In September 2012, we extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of $213.4 million. To make this repayment the Estar Group used the proceeds received by them from our group for the sale of Cognor Stahlhandel (see note 3(a) to the consolidated financial statements) and proceeds under a security deposit, described further below.

As of December 31, 2012, the loan balance amounted to $896.4 million, out of which $15.4 million represents interest accrued on the extended loan. The interest accrued on the loan amount before the extension was repaid in full. During the year ended December 31, 2013, $5.0 million were repaid and the Estar Group returned the security deposit paid by us in the end of 2012 for the acquisition of some assets pledged under the Estar Loan Agreement. As the repayment was not effected in time we initiated legal proceedings against the borrower and sureties.

We evaluate the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2014 and 2013, was $nil. This resulted in an $832.0 million and $888.0 million provision for amounts due from related parties under the Estar Loan Agreement as of December 31, 2014 and 2013, respectively. We have not taken possession of assets provided as collateral because these entities are burdened with a substantial amount of debt.

Based on the combined design of the above mentioned loan and trading agreements, we have determined that the related metallurgical plants are VIEs, and that we are not the primary beneficiary of the related metallurgical plants. We are limited in our exposure to risks by the net amounts receivable from the related metallurgical plants.

During the years ended December 31, 2014, 2013 and 2012, we had the following transactions and current balances in settlement with the related metallurgical plants:

	2014	2013	2012
	(In thousands of U.S. dollars)		
Revenues			
Steel segment products sales	68,201	103,825	346,938
Mining segment products sales	258	1,956	3,981
Other revenues(1)	37,262	63,175	63,039
Total revenues	105,721	168,956	413,958

Costs and expenses			
Cost of goods for resale, production and operating expenses	106,031	588,755	842,253
Transportation expenses	8,401	24,609	31,693
Other expenses	(349)		189
Provision for amounts due from the related metallurgical plants	32,425	517,724	919,113
Total expenses	146,508	1,131,088	1,793,248

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(1) Including power segment sales and services provided to the related metallurgical plants by all segment companies.

	December 31, 2014	December 31, 2013
	(In thousands of U.S. dollars)	
Assets		
Trade accounts receivable	6,544	17,073
Prepayments and other current assets	294	15,949
Total assets	6,838	33,022
Liabilities		
Trade accounts payable	13,488	74,384
Advanced received and other payables	309	1,043
Long-term payables	38	21
Total liabilities	13,835	75,448

As of December 31, 2014 and 2013, the amounts of trade accounts receivable and prepayments and other current assets were reduced by $508.1 million and $544.5 million, respectively, of allowance for doubtful accounts. The allowance for doubtful accounts was recognized based on our estimates of future cash inflows from these balances. As of December 31, 2014 and 2013, the amounts receivable fully covered by the allowance included amounts receivable of $431.7 million and $470.8 million, respectively, described below. In December 2013, we, Calridge (a shareholder in Mechel OAO, an entity wholly owned by the controlling shareholder) and the related metallurgical plants signed an assignment agreement. Under that agreement, we assigned to Calridge the right to collect amounts due from the related metallurgical plants with the nominal value of $470.8 million, and Calridge is to repay this amount to us through November, 2017.

Inventories in stock purchased from these entities amounted to $10.2 million and $38.4 million as of December 31, 2014 and 2013, respectively.

Transactions with Metallurg-Trust

In 2010, we started transactions with a trading company Metallurg-Trust OOO (**Metallurg-Trust**), a party which can be significantly influenced by us through business relationships. Metallurg-Trust is mostly involved in reselling the goods produced by the Russian related metallurgical plants on the domestic market and supplying raw materials and semi-finished goods. During the years ended December 31, 2014, 2013 and 2012, we sold to Metallurg-Trust $nil, $61.1 million and $316.0 million, respectively, of pig iron, semi-finished goods, coal and chrome produced by our entities for further supply to the Russian related metallurgical plants. As of December 31, 2014 and 2013, we had receivables from Metallurg-Trust in the amount of $110.4 million and $190.4 million, respectively. We provided to Metallurg-Trust the extended credit terms varying from 30 to 180 days. Metallurg-Trust stopped paying us for the steel products delivered to it in the second half of 2013. We made a decision to stop supplies to Metallurg-Trust since July 2013 and record a special allowance on the outstanding receivables. As of December 31, 2014 and 2013, an allowance of $110.4 million and $190.4 million, respectively, was recorded against the amount of trade receivables based on our expectation of future cash inflows.

Our sales to Metallurg-Trust in the amount of $nil, $0.5 million and $4.0 million were presented net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2014, 2013 and 2012, respectively.

See also Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting A non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have an adverse effect on our business, results of operations and financial condition.

Transactions with the Controlling Shareholder

During the year ended December 31, 2013, the common shares of Port Vanino were partly sold to our related parties: Mr. Zyuzin, our controlling shareholder, and Calridge, a company wholly owned by Mr. Zyuzin. Mr. Zyuzin acquired approximately 0.9% of the total common shares (0.67% of the total shares) and Calridge acquired approximately 0.6% of the total common shares (0.45% of the total shares) for $5.95 million and $3.97 million, respectively.

In November 2013, we purchased 1.310109% of Mechel Mining from Mr. Zyuzin for $58.0 million in cash. The transaction resulted in our owning 99.999995% of Mechel Mining as of December 31, 2013 and 2014.

Item 8. *Financial Information*

See Item 18. Financial Statements.

Litigation

Other than the legal proceedings described below, we are not involved in any legal proceedings that we believe to be material.

Tax

On January 16, 2012, Mechel Trading House received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 5.9 billion rubles for the 2008-2009 period. We contested this assessment through the administrative procedure with the higher-level tax authorities which reduced the assessment to 5.5 billion rubles. On June 5, 2012, Mechel Trading House filed a claim with the Moscow Arbitrazh Court to contest the amount of 5.5 billion rubles. On January 9, 2014, the Moscow Arbitrazh Court sustained the Mechel Trading House claims in part of 1.6 billion rubles, including penalties and fines, and the remaining claims were denied. Mechel Trading House did not appeal the decision. On June 19, 2014, the Moscow Arbitrazh Court sustained the application of Mechel Trading House, requesting leave to repay the remaining 3.9 billion ruble assessment on an installment basis by May 2016.

In June 2012, Chelyabinsk Metallurgical Plant received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 315.2 million rubles for the year 2008. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities reduced the assessment to 104.6 million rubles. On January 18, 2013, Chelyabinsk Metallurgical Plant filed a claim with the Moscow Arbitrazh Court to contest the amount of 104.6 million rubles. On December 29, 2014, the Moscow Arbitrazh Court sustained the Chelyabinsk Metallurgical Plant claims in part of 28.3 million rubles and the remaining claims were denied. Chelyabinsk Metallurgical Plant filed an appeal with the Ninth Arbitrazh Court of Appeal. On February 19, 2015, the Ninth Arbitrazh Court of Appeal reversed the lower court s decision in part of reducing the profit tax assessment in the amount of 69.0 thousand rubles, the rest of the court s decision was upheld. We intend to file a cassation appeal.

On April 12, 2013, Tomusinsky Open Pit received an assessment from the tax authorities for the 2009-2010 period for profit tax, VAT, mineral extraction tax, interest and incurred penalties in a total amount of 1,580.6 million rubles, including approximately 1,500.0 million rubles assessed in connection with transfer pricing. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities dismissed the appeal. On July 10, 2013, Tomusinsky Open Pit filed a claim with the Arbitrazh Court of

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Kemerovo region to contest the decision of the tax authorities. On December 16, 2013, the Arbitrazh Court of Kemerovo region supported our claims in part of 80.0 million rubles, and the remaining claims were denied. On January 29, 2014, Tomusinsky Open Pit filed an appeal on the decision of the Arbitrazh Court of Kemerovo region. On May 22, 2014, the Seventh Arbitrazh Court of Appeal reversed the decision of the Arbitrazh Court of Kemerovo region in part of 80.0 million rubles. On August 21, 2014, the Arbitrazh Court of West Siberian District upheld the decision of lower courts and dismissed the cassation appeal. On October 16, 2014, Tomusinsky Open Pit filed a cassation appeal with the Supreme Court of the Russian Federation. On December 8, 2014, the Supreme Court of the Russian Federation denied to transfer the appeal for consideration to the Supreme Chamber and terminated proceedings. As of the date hereof, tax liabilities have been repaid in full.

We believe that we have paid or accrued all taxes that are applicable. Where uncertainty exists, we have accrued tax liabilities based on management s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with FASB ASC 450, Contingencies (**ASC 450**), we accrued $11.4 million of other tax claims that management believes are probable as of December 31, 2014. In addition, income tax accrual was made under ASC 740. See note 20 to the consolidated financial statements.

Antimonopoly

In September 2013, the FAS found the Administration of the Kemerovo region, Russian Railways and 16 largest freight railway operators, including Mecheltrans, to have violated the Competition Law by entering into an agreement that led or could have led to the division of the commodity market on a territorial principle, in volume of sale of goods and composition of customers of goods, as well as to limiting access to the commodity market for entities or their elimination from it. Mecheltrans is fined by the FAS in the amount of 19.3 million rubles. Mecheltrans filed a claim with the Moscow Arbitrazh Court to appeal this decision. The court hearing is scheduled for May 21, 2015.

In December 2013, the Office of the FAS in the Kemerovo region found Kuzbass Power Sales Company to have violated the Competition Law by unreasonable additional charge for electricity supply services. The case on an administrative violation is opened with respect to Kuzbass Power Sales Company. Kuzbass Power Sales Company filed a claim with the Arbitrazh Court of Kemerovo region to appeal the decision and the directive issued by the Office of the FAS in the Kemerovo region. In May 2014, the Arbitrazh Court of Kemerovo region invalidated the decision and the directive of the Office of the FAS in the Kemerovo region. The Office of the FAS in the Kemerovo region filed an appeal with the Seventh Arbitrazh Court of Appeal. In August 2014, the Seventh Arbitrazh Court of Appeal upheld the decision of the Arbitrazh Court of Kemerovo region.

Environmental and safety

Pursuant to a claim of the Novokuznetsk Environmental Prosecutor s Office against Southern Kuzbass Power Plant concerning the discharge of pollutants into the atmosphere above the maximum allowable level, the court ruled in September 2008 that we must limit the discharge of pollutants into the atmosphere to comply with the maximum allowable level. We have complied with the ruling effective as of November 2009. The court also mandated us to reconstruct the de-dusting system. Since then, we have applied several times for stay of execution, the last time being in June 2014, and the court allowed us to stay execution of this mandate until June 1, 2016. We are continuing with the reconstruction and replacement of the dust and gas scrubber equipment. During 2013-2014, we completed the reconstruction of two of the boilers and have commenced the reconstruction of another boiler.

On June 11, 2013, the Department of Rosprirodnadzor for the Republic of Bashkortostan filed a lawsuit against Beloretsk Metallurgical Plant with the Arbitrazh Court of the Republic of Bashkortostan seeking the recovery of damages caused to water resources as a result of non-compliance with water legislation in the

amount of 408.2 million rubles. During the court hearings claims under the lawsuit were reduced to 398.6 million rubles. On October 3, 2013, the Arbitrazh Court of the Republic of Bashkortostan rendered a decision to collect from Beloretsk Metallurgical Plant the amount of damages in the amount of 398.6 million rubles. We contested this decision with the Eighteenth Arbitrazh Court of Appeal. On January 28, 2014, the court upheld the decision of the lower court. On February 7, 2014, Beloretsk Metallurgical Plant filed a cassation appeal with the Federal Arbitrazh Court of Ural District. At the court hearing held on April 14, 2014 Beloretsk Metallurgical Plant withdrew its cassation appeal. On May 27, 2014, the Arbitrazh Court of the Republic of Bashkortostan approved a settlement agreement between Rosprirodnadzor for the Republic of Bashkortostan and Beloretsk Metallurgical Plant. In accordance with the settlement agreement, Beloretsk Metallurgical Plant is obliged to develop project documentation for the technical upgrading and/or reconstruction (construction) of waste treatment facilities system in order to bring the quality of discharged waste water into compliance with applicable regulatory requirements. The reconstruction of waste treatment facilities system must be completed by December 31, 2016.

Commercial litigation

In the period from February 2014 to April 2015, Novatek Chelyabinsk OOO filed 18 statements of claim against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region seeking recovery of debt for gas supplied from December 2013 to March 2015 in an aggregate amount of approximately 8.0 billion rubles and penalty for delay in payment in an aggregate amount of approximately 145.0 million rubles. During the court hearings the amounts of claims were reduced to approximately 6.6 billion rubles of principal and approximately 160.0 million rubles of penalties. In the period from April 2014 to April 2015, the Arbitrazh Court of Chelyabinsk region upheld the plaintiff s claim under 14 cases. We appealed nine cases. From July 2014 to April 2015, the Eighteenth Arbitrazh Court of Appeal dismissed our claims with respect to eight cases. The court hearings with respect to three cases are scheduled for late April 2015. The court hearing with respect to one case has not yet been scheduled. Chelyabinsk Metallurgical Plant repaid debt in the amount of 3.8 billion rubles as principal and 45.5 million rubles as penalty under these ten cases.

On August 11, 2014, RPFB Project Finance OOO filed a claim against Mechel with the Moscow Arbitrazh Court seeking recovery of debt for provided consulting services in the amount of 731.8 million rubles, interest in the amount of 20.2 million rubles and litigation costs. On February 25, 2015, the Moscow Arbitrazh Court rendered a decision to sustain the claim in full. We intend to appeal the decision.

In December 2014, Minmetals appealed to the Arbitration Institute of the Stockholm Chamber of Commerce against Chelyabinsk Metallurgical Plant to recover alleged amounts due under the equipment supply contract amounting in total to approximately $128.4 million. Chelyabinsk Metallurgical Plant has submitted a counterclaim in this matter amounting to $68.4 million, which includes a penalty for delay and the recovery of damages for failing to perform works and rectifying works of poor quality. The court hearing date has not yet been scheduled.

In February 2015, Mecheltrans filed a claim against SM Capital OOO with the Moscow Arbitrazh Court seeking recovery of debt under REPO agreements (bonds) in the amount of 1.4 billion rubles. In March 2015, SM Capital OOO filed a counterclaim against Mecheltrans and Mechel (as the guarantor) with the Moscow Arbitrazh Court seeking recovery of debt under the same REPO agreements (bonds) in the amount of 1.4 billion rubles. The court hearing is scheduled for June 10, 2015.

Debt litigation

VTB Group Companies

On September 25, 2014, VTB Bank filed a lawsuit against Mechel with the Moscow Arbitrazh Court seeking recovery of debt under a credit facility agreement in an aggregate amount of approximately 3.0 billion rubles, including interest on the loan in the amount of 2.9 billion rubles and penalty in the amount of 104.5 million rubles. On October 30, 2014, we filed a counterclaim against VTB Bank seeking the revision of credit facility clauses. On December 12, 2014, the Moscow Arbitrazh Court sustained the VTB Bank claims and dismissed our claims. We filed an appeal with the Ninth Arbitrazh Court of Appeal. The court hearing is scheduled for April 29, 2015.

In October 2014, VTB Factoring OOO filed a lawsuit with the Moscow Arbitrazh Court against Chelyabinsk Metallurgical Plant and Mechel Service seeking jointly and severally recovery of debt on payments of 867.7 million rubles, and recovery from Chelyabinsk Metallurgical Plant of debt on payments of financing fees of 86.6 million rubles. On February 3, 2015, the Moscow Arbitrazh Court sustained the lawsuit in full. Chelyabinsk Metallurgical Plant and Mechel Service appealed with the Ninth Arbitrazh Court of Appeal. On April 27, 2015, the Ninth Arbitrazh Court of Appeal will consider the appeals.

In December 2014, Yakutugol and Southern Kuzbass Coal Company each filed separate lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking amendment of the loan agreements in connection with the substantial change of circumstances, namely a sharp decline in coal prices. The court hearings are scheduled for May 29 and June 3, 2015.

On December 30, 2014, Mechel Carbon Singapore received Statutory Demands from VTB Bank for the payment of: (i) 10.0 billion rubles (principal amount) and 322.2 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Southern Kuzbass Coal Company, and (ii) 5.8 billion rubles (principle amount) and 187.3 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Yakutugol. On January 20, 2015, Mechel Carbon Singapore declined to pay under the Statutory Demands of VTB Bank with respect to several litigations concerning credit facility agreements between the borrowers (Southern Kuzbass Coal Company and Yakutugol) and VTB Bank in Russia. On January 27, 2015, VTB Bank submitted an application to the High Court of Singapore for the winding up proceedings against Mechel Carbon Singapore. On February 13, 2015, the High Court stated that VTB Bank has to submit the final letter of claim by February 27, 2015 and Mechel Carbon Singapore has to submit the final letter of defense by March 13, 2015. VTB Bank submitted its final letter of claim on March 16, 2015 and Mechel Carbon Singapore submitted its final letter of defense on March 26, 2015. The final award will be stated on April 30, 2015.

On January 7, 2015, Mechel Carbon received two notices of Betreibungsamt of Baar where it was informed about the proceedings against Mechel Carbon based on the claims of VTB Bank: (i) CHF 194.0 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 112.8 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. On January 8, 2015, Mechel Carbon rejected the proceedings by submission of two Rechtsvorschlag (i.e., a motion exercising the right to refuse the procedure for compulsory execution). The proceedings were stopped. On February 16, 2015, Mechel Carbon received two claims of VTB Bank dated February 10, 2015 and court orders of canton Zug dated February 13, 2015 with respect to the following amounts: (i) CHF 184.7 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 107.4 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. In court of canton Zug, VTB Bank is challenging Mechel Carbon s refusal to participate in the enforcemen