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.

	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 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 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.

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.

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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 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

$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.

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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

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 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.

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.

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

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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;

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- *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 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

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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.

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

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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

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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

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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;

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- 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 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

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.

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.

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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

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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

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.

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						
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 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.

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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.

	2014		**2013**		**2012**	
Product	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% 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%	

(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.

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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.

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.

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(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.

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.

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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.

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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.

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]**	**Year of Project Launch**	**Estimated Year of Completion**
		(In millions of U.S. dollars)		
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.

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;

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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

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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

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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,

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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.

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