Mechel OAO
Form 20-F
April 16, 2013
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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, 2012**

**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)**

**Vladislav Zlenko, tel.: +7-495-221-8888, e-mail: vladislav.zlenko@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 | NEW YORK STOCK EXCHANGE |
| REPRESENTING ONE COMMON SHARE | |
| COMMON SHARES, PAR VALUE | NEW YORK STOCK EXCHANGE[(1)] |
| 10 RUSSIAN RUBLES PER SHARE | |
| PREFERRED AMERICAN DEPOSITARY SHARES, EACH PREFERRED ADS | NEW YORK STOCK EXCHANGE |
| REPRESENTING ONE-HALF OF A PREFERRED SHARE | |
| PREFERRED SHARES, PAR VALUE | NEW YORK STOCK EXCHANGE[(2)] |
| 10 RUSSIAN RUBLES PER SHARE | |

**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 84,625,107 shares are in the form of common ADSs as of March 31, 2013

138,756,915 preferred shares (including 55,502,766 shares held by Skyblock Limited, a wholly-owned subsidiary of Mechel), of which 25,177,757 shares are in the form of preferred ADSs as of March 31, 2013

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 x Accelerated filer ¨ 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, us or our refer to Mechel OAO together with its subsidiaries.

Our business consists of four segments: mining, steel, ferroalloys 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 the currency of the Russian Federation and references to euro or are to the currency of the member states of the European Union (the **E.U.** ) that participate in the European Monetary Union.

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.

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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 some of our subsidiaries and their names as used in this document:

| Name as Used in This Document | Official Name | Location |
|---|---|---|
| ***Mining Segment*** | | |
| Southern Kuzbass Coal Company | Southern Kuzbass Coal Company OAO | Russia, Kemerovo region |
| Tomusinsky Open Pit | Tomusinsky Open Pit Mine OAO | Russia, Kemerovo region |
| Korshunov Mining Plant | Korshunov Mining Plant OAO | Russia, Irkutsk region |
| Port Posiet | Port Posiet OAO | Russia, Primorsk Krai |
| Yakutugol | Yakutugol Holding Company OAO | Russia, Sakha Republic |
| Port Temryuk | Port Mechel Temryuk OOO | Russia, Krasnodar Krai |
| Bluestone or Bluestone companies | Bluestone Industries, Inc., Dynamic Energy, Inc., JCJ Coal Group, LLC, and other subsidiaries carrying out the Bluestone business | United States, West Virginia |
| Mechel Mining | Mechel Mining OAO | Russia, Moscow |
| Mechel Mining Management | Mechel Mining Management Company OOO | Russia, Moscow |
| Mechel Engineering | Mechel Engineering OOO | Russia, Novosibirsk |
| Moscow Coke and Gas Plant[1] | Moscow Coke and Gas Plant OAO | Russia, Moscow region |
| Mechel Coke[1] | Mechel Coke OOO | Russia, Chelyabinsk region |
| ***Steel Segment*** | | |
| Chelyabinsk Metallurgical Plant | Chelyabinsk Metallurgical Plant OAO | Russia, Chelyabinsk region |
| Vyartsilya Metal Products Plant | Vyartsilya Metal Products Plant ZAO | Russia, Republic of Karelia |
| Beloretsk Metallurgical Plant | Beloretsk Metallurgical Plant OAO | Russia, Republic of Bashkortostan |
| Donetsk Electrometallurgical Plant | Donetsk Electrometallurgical Plant PJSC | Ukraine, Donetsk region |
| Urals Stampings Plant | Urals Stampings Plant OAO | Russia, Chelyabinsk region |
| Mechel Nemunas | Mechel Nemunas UAB | Lithuania |
| Izhstal | Izhstal OAO | Russia, Republic of Udmurtia |
| Port Kambarka | Port Kambarka OAO | Russia, Republic of Udmurtia |
| Mechel-Steel Management | Mechel-Steel Management OOO | Russia, Moscow |
| Mechel Targoviste[2] | Mechel Targoviste S.A. | Romania |
| Mechel Campia Turzii[2] | Mechel Campia Turzii S.A. | Romania |
| Ductil Steel[2] | Ductil Steel S.A. | Romania |
| Laminorul Plant[2] | Laminorul S.A. | Romania |
| ***Ferroalloys Segment*** | | |
| Southern Urals Nickel Plant | Southern Urals Nickel Plant OAO | Russia, Orenburg region |
| Bratsk Ferroalloy Plant | Bratsk Ferroalloy Plant OOO | Russia, Irkutsk region |
| Oriel Resources | Oriel Resources Limited | United Kingdom |
| Tikhvin Ferroalloy Plant | Tikhvin Ferroalloy Plant OOO | Russia, Leningrad region |
| Mechel Ferroalloys Management | Mechel Ferroalloys Management OOO | Russia, Moscow |
| ***Power Segment*** | | |
| Southern Kuzbass Power Plant | Southern Kuzbass Power Plant OAO | Russia, Kemerovo region |
| Kuzbass Power Sales Company | Kuzbass Power Sales Company OAO | Russia, Kemerovo region |
| Mechel Energo | Mechel Energo OOO | Russia, Moscow |
| Toplofikatsia Rousse[3] | Toplofikatsia Rousse EAD | Bulgaria |
| ***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 Trading House | Mechel Trading House OOO | Russia, Moscow |
| Mechel Service Global | Mechel Service Global B.V. | Netherlands |
| Mechel Service | Mechel Service OOO | Russia, Moscow |
| HBL Holding | HBL Holding GmbH | Germany |

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| Name as Used in This Document | Official Name | Location |
|---|---|---|
| ***Other*** | | |
| Mecheltrans | Mecheltrans OOO | Russia, Moscow |
| Mecheltrans Management | Mecheltrans Management OOO | Russia, Moscow |

(1) Moscow Coke and Gas Plant and Mechel Coke were transferred to our mining segment in the second quarter of 2010. In prior periods, they were included in our steel segment. The data for prior periods included herein was restated accordingly to account for these facilities in the mining segment.
(2) We disposed Mechel Targoviste, Mechel Campia Turzii, Ductil Steel and Laminorul Plant to a third party in February 2013.
(3) We signed an agreement to sell Toplofikatsia Rousse and expect the transaction to close in May 2013. The entity is presented as discontinued operations in our consolidated financial statements.

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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 sta 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 and our ability to comply with the covenants in our financing agreements;
- the impact of competition;
- costs of our acquisitions and ability to realize expected synergies and other benefits;
- capital expenditures;
- growth in 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, 2012, 2011, 2010, 2009 and 2008, 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 significantly affected by acquisitions. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods after their respective dates of acquisition. 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, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars, except per share data) | | | | |
| **Consolidated statements of operations and comprehensive income data:** | | | | | |
| Revenue, net | 11,274,933 | 12,541,145 | 9,746,646 | 5,754,146 | 9,950,705 |
| Cost of goods sold | (8,024,210) | (8,236,807) | (6,179,612) | (3,987,386) | (5,295,407) |
| Gross profit | 3,250,723 | 4,304,338 | 3,567,034 | 1,766,760 | 4,655,298 |
| Selling, distribution and operating expenses | (4,148,598) | (2,464,234) | (2,034,822) | (1,521,116) | (2,099,029) |
| Operating (loss) income | (897,875) | 1,840,104 | 1,532,212 | 245,644 | 2,556,269 |
| Other income and (expense), net | (479,426) | (667,537) | (563,008) | (150,420) | (1,208,001) |
| (Loss) income from continuing operations, before income tax | (1,377,301) | 1,172,567 | 969,204 | 95,224 | 1,348,268 |
| Income tax expense | (179,155) | (360,750) | (276,630) | (18,893) | (118,887) |
| (Loss) income from continuing operations | (1,556,456) | 811,817 | 692,574 | 76,331 | 1,229,381 |
| Loss from discontinued operations, net of income tax | (108,429) | (8,370) | (600) | | |
| Net (loss) income | (1,664,885) | 803,447 | 691,974 | 76,331 | 1,229,381 |
| Less: Net loss (income) attributable to non-controlling interests | 317 | (75,562) | (34,761) | (2,590) | (88,837) |
| Net (loss) income attributable to shareholders of Mechel OAO | (1,664,568) | 727,885 | 657,213 | 73,741 | 1,140,544 |
| Less: Dividends on preferred shares | (79,056) | (78,281) | (8,780) | (134,498) | |
| Net (loss) income attributable to common shareholders of Mechel OAO | (1,743,623) | 649,604 | 648,433 | (60,757) | 1,140,544 |
| Net (loss) income | (1,664,885) | 803,447 | 691,974 | 76,331 | 1,229,381 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars, except per share data) | | | | |
| Currency translation adjustment | 70,893 | (170,794) | (26,218) | (325,353) | (289,633) |
| Change in pension benefit obligation | (17,778) | (7,160) | (9,466) | (10,155) | 87,659 |
| Adjustment of available-for-sale securities | (300) | (2,245) | 4,838 | (5,178) | (6,571) |
| Additional minimum pension liability | | | | | |
| Comprehensive (loss) income | (1,612,070) | 623,248 | 661,128 | (264,355) | 1,020,836 |
| Less comprehensive (income) loss attributable to non-controlling interests | (22,851) | (50,527) | (32,498) | 6,759 | (26,822) |
| Comprehensive (loss) income attributable to shareholders of Mechel OAO | (1,634,921) | 572,721 | 628,630 | (257,596) | 994,014 |
| (Loss) earnings per share from continuing operations | (3.93) | 1.58 | 1.56 | (0.15) | 2.74 |
| Loss per share effect from discontinued operations | (0.26) | (0.02) | (0.00) | | |
| Net (loss) income per share | (4.19) | 1.56 | 1.56 | (0.15) | 2.74 |
| Cash dividends per common share | 0.24 | 0.31 | 0.03 | 0.18 | 1.12 |
| Cash dividends per preferred share | 0.95 | 0.94 | 0.11 | 1.62 | 0.00 |
| 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 | 4,015,054 | 5,192,028 | 3,856,165 | 2,111,990 | 4,566,354 |
| Cost of goods sold | (2,130,958) | (2,324,190) | (1,764,522) | (1,294,091) | (1,729,099) |
| Gross profit | 1,884,096 | 2,867,838 | 2,091,643 | 817,899 | 2,837,255 |
| Selling, distribution and operating expenses | (1,239,818) | (1,176,454) | (905,751) | (612,730) | (1,010,081) |
| Operating income | 644,278 | 1,691,384 | 1,185,892 | 205,169 | 1,827,174 |
| **Steel segment statements of operations and comprehensive income data[(1)]:** | | | | | |
| Revenue, net | 7,071,321 | 7,464,833 | 5,833,677 | 3,302,302 | 5,360,252 |
| Cost of goods sold | (6,026,304) | (6,341,260) | (4,729,914) | (2,666,543) | (3,871,599) |
| Gross profit | 1,045,017 | 1,123,573 | 1,103,763 | 635,759 | 1,488,653 |
| Selling, distribution and operating expenses | (2,409,574) | (931,824) | (806,207) | (654,256) | (742,139) |
| Operating (loss) income | (1,364,557) | 191,749 | 297,556 | (18,497) | 746,514 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars, except per share data) | | | | |
| **Ferroalloys segment statements of operations and comprehensive income data[1]:** | | | | | |
| Revenue, net | 504,133 | 674,445 | 629,052 | 430,809 | 584,631 |
| Cost of goods sold | (539,454) | (643,624) | (535,511) | (393,833) | (573,007) |
| Gross profit | (35,321) | 30,821 | 93,541 | 36,976 | 11,624 |
| Selling, distribution and operating expenses | (224,575) | (75,733) | (70,583) | (64,562) | (62,200) |
| Operating (loss) income | (259,896) | (44,912) | 22,958 | (27,586) | (50,576) |
| **Power segment statements of operations and comprehensive income data[1]:** | | | | | |
| Revenue, net | 1,241,112 | 1,244,482 | 1,058,324 | 872,783 | 1,028,110 |
| Cost of goods sold | (931,761) | (932,060) | (759,314) | (642,512) | (714,094) |
| Gross profit | 309,351 | 312,422 | 299,010 | 230,271 | 314,016 |
| Selling, distribution and operating expenses | (274,631) | (280,223) | (252,282) | (189,569) | (284,610) |
| Operating income | 34,720 | 32,199 | 46,728 | 40,702 | 29,406 |
| **Consolidated balance sheet data (at period end):** | | | | | |
| Total assets | 17,695,303 | 19,309,799 | 15,778,164 | 13,183,311 | 12,009,634 |
| Equity attributable to shareholders of Mechel OAO | 3,177,381 | 4,993,989 | 4,631,061 | 4,037,957 | 4,015,823 |
| Equity attributable to non-controlling interests | 362,276 | 371,337 | 319,950 | 292,732 | 305,838 |
| Long-term debt, net of current portion | 7,929,489 | 6,732,029 | 5,240,620 | 4,074,458 | 219,816 |
| **Consolidated cash flows data:** | | | | | |
| Net cash provided by (used in) operating activities | 1,311,328 | 882,538 | (147,704) | 561,669 | 2,229,941 |
| Net cash used in investing activities | (839,137) | (2,618,232) | (1,120,406) | (709,931) | (3,249,737) |
| Net cash (used in) provided by financing activities | (792,006) | 2,079,034 | 1,210,126 | 375,434 | 1,247,623 |
| **Non-U.S. GAAP measures[2]:** | | | | | |
| Consolidated Adjusted EBITDA | 1,332,056 | 2,396,673 | 2,015,849 | 686,641 | 3,017,103 |
| Mining Segment Adjusted EBITDA | 998,285 | 2,023,827 | 1,467,965 | 451,952 | 2,129,313 |
| Steel Segment Adjusted EBITDA | 290,152 | 318,875 | 414,010 | 100,170 | 877,427 |
| Ferroalloys Segment Adjusted EBITDA | (48,559) | 45,879 | 94,432 | 34,940 | (33,287) |
| Power Segment Adjusted EBITDA | 44,598 | 40,107 | 60,366 | 53,721 | 55,854 |

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

(2) Adjusted EBITDA represents net income before depreciation, depletion and amortization, foreign exchange gain/(loss), gain/(loss) from remeasurement of contingent liabilities at fair value, 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, amount attributable to non-controlling interests and income taxes.

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Reconciliation of Adjusted EBITDA to net income is as follows for the periods indicated:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars) | | | | |
| **Consolidated Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | (1,664,567) | 727,885 | 657,212 | 73,741 | 1,140,544 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 586,218 | 556,356 | 474,061 | 406,675 | 463,297 |
| Foreign exchange (gain) loss | (88,711) | 117,077 | 14,543 | 174,336 | 877,428 |
| Loss (gain) from remeasurement of contingent liabilities at fair value | 1,906 | 1,760 | 1,630 | (494,238) | |
| Interest expense | 669,353 | 560,548 | 558,284 | 498,986 | 324,083 |
| Interest income | (70,508) | (16,786) | (17,167) | (21,445) | (11,614) |
| 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 | 1,611,099 | 5,151 | 14,860 | 27,103 | 15,641 |
| Net (loss) income from discontinued operations, net of income taxes | 108,429 | 8,370 | 600 | | |
| Amount attributable to non-controlling interests | (318) | 75,562 | 34,761 | 2,590 | 88,837 |
| Income taxes | 179,155 | 360,750 | 276,631 | 18,893 | 118,887 |
| Consolidated Adjusted EBITDA | 1,332,056 | 2,396,673 | 2,015,416 | 686,641 | 3,017,103 |
| **Mining Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net income attributable to shareholders of Mechel OAO | 360,770 | 1,069,892 | 756,687 | 598,156 | 1,186,087 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 317,005 | 328,521 | 281,392 | 231,585 | 286,626 |
| Foreign exchange (gain) loss | (65,795) | 60,718 | (9,354) | (65,954) | 148,652 |
| Loss (gain) from remeasurement of contingent liabilities at fair value | 1,906 | 1,760 | 1,630 | (494,238) | |
| Interest expense | 280,787 | 310,318 | 333,684 | 265,865 | 127,433 |
| Interest income | (101,495) | (138,960) | (133,275) | (106,813) | (26,138) |
| 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 | 5,636 | 8,609 | 8,264 | 7,126 | 10,448 |
| Net (loss) income from discontinued operations, net of income taxes | | | | | |
| Amount attributable to non-controlling interests | 45,976 | 80,050 | 43,130 | 13,538 | 65,833 |
| Income taxes | 153,495 | 302,919 | 185,807 | 2,687 | 330,372 |
| Mining Segment Adjusted EBITDA | 998,285 | 2,023,827 | 1,467,965 | 451,952 | 2,129,313 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars) | | | | |
| **Steel Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | (1,677,326) | (232,606) | 90,847 | (262,145) | 246,588 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 169,582 | 125,987 | 110,910 | 110,292 | 131,142 |
| Foreign exchange (gain) loss | (46,071) | 80,739 | 7,141 | 77,629 | 330,173 |
| Loss (gain) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 383,184 | 318,956 | 228,143 | 221,033 | 174,175 |
| Interest income | (21,927) | (13,377) | (34,736) | (43,864) | (72,792) |
| 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 | 1,482,809 | 271 | 2,803 | 3,018 | 3,814 |
| Net (loss) income from discontinued operations, net of income taxes | | | | | |
| Amount attributable to non-controlling interests | (25,350) | (9,708) | (12,483) | (14,205) | 17,980 |
| Income taxes | 25,251 | 48,613 | 20,953 | 8,412 | 46,347 |
| Steel Segment Adjusted EBITDA | 290,152 | 318,875 | 413,578 | 100,170 | 877,427 |
| **Ferroalloys Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | (292,070) | (71,579) | (186,256) | (309,922) | (283,294) |
| Add: | | | | | |
| Depreciation, depletion and amortization | 88,969 | 89,986 | 67,303 | 48,727 | 22,738 |
| Foreign exchange loss (gain) | 23,153 | (24,211) | 16,784 | 162,735 | 398,768 |
| Loss (gain) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 34,018 | 51,569 | 133,242 | 123,589 | 92,610 |
| Interest income | (59) | (2,117) | (5,351) | (10,041) | (14,404) |
| 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 | 124,107 | 1,174 | 4,723 | 17,165 | 142 |
| Net (loss) income from discontinued operations, net of income taxes | | | | | |
| Amount attributable to non-controlling interests | (23,828) | (690) | (630) | 451 | 2,341 |
| Income taxes | (2,849) | 1,747 | 64,617 | 2,236 | (252,188) |
| Ferroalloys Segment Adjusted EBITDA | (48,559) | 45,879 | 94,432 | 34,940 | (33,287) |
| **Power Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | (103,521) | (5,808) | 16,858 | 1,793 | 3,037 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 10,662 | 11,860 | 14,456 | 16,071 | 22,791 |
| Foreign exchange loss (gain) | 1 | (169) | (28) | (74) | 165 |
| Loss (gain) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 24,374 | 17,581 | 19,549 | 27,828 | 31,585 |
| Interest income | (38) | (205) | (138) | (56) | |
| 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 | (1,452) | (4,903) | (930) | (205) | 1,237 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (In thousands of U.S. dollars) | | | | |
| Net (loss) income from discontinued operations, net of income taxes | 108,429 | 8,370 | 600 | | |
| Amount attributable to non-controlling interests | 2,885 | 5,910 | 4,745 | 2,806 | 2,683 |
| Income taxes | 3,258 | 7,471 | 5,254 | 5,558 | (5,644) |
| Power Segment Adjusted EBITDA | 44,598 | 40,107 | 60,366 | 53,721 | 55,854 |

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.

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 and gains and losses from remeasurement of contingent liabilities at fair value, which may recur.
- Adjusted EBITDA does not reflect the impact of gain/(loss) from remeasurement of contingent liabilities at fair value on our operating performance, which may recur.
- Adjusted EBITDA does not reflect the impact of 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 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 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** ).

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

| | Rubles per U.S. Dollar | | | |
|---|---|---|---|---|
| **Year Ended December 31,** | **High** | **Low** | **Average[1]** | **Period End** |
| 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 |
| 2009 | 36.43 | 28.67 | 31.72 | 30.24 |
| 2008 | 29.38 | 23.13 | 24.86 | 29.38 |

(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 2013 | 31.08 | 30.51 |
| February 2013 | 30.62 | 29.93 |
| January 2013 | 30.42 | 30.03 |
| December 2012 | 30.99 | 30.37 |
| November 2012 | 31.73 | 30.94 |
| October 2012 | 31.53 | 30.72 |

The exchange rate between the ruble and the U.S. dollar on April 16, 2013 was 31.31 rubles per one U.S. dollar.

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**

***Disposal of Romanian steel assets***

In February 2013, we sold our steel assets in Romania to Invest Nikarom S.R.L., a privately held Romanian group. The aggregate consideration was 230 Romanian lei in cash (approximately $100 as of the closing date of the transaction). The disposed assets consisted of 100% of shares of Ductil Steel, 86.6% of shares of Mechel Targoviste, 86.6% of shares of Mechel Campia Turzii, 100% of shares of Mechel East Europe Metallurgical Division S.R.L. and 100% of shares of Donau Commodities S.R.L. together with its subsidiary Laminorul Plant where it held 90.9% of shares. The disposal was in accordance with our revised strategy aimed at focusing on our key production lines and disposal of non-core businesses. See note 26(b) to the consolidated financial statements.

***Disposal of Toplofikatsia Rousse***

In December 2012, we signed an agreement to sell 100% of shares of Toplofikatsia Rousse, a power plant located on the bank of the Danube River in close proximity to the harbor of Rousse, Bulgaria. Toplofikatsia Rousse comprises thermal power plant Toplofikatsia Rousse Izstok and heat grids in Rousse. We had acquired a 49% stake in Toplofikatsia Rousse in December 2007 and further increased our stake up to 100% in December 2010. Subject to fulfillment of certain conditions by the buyer, we expect the transaction to close in May 2013. This business is presented as discontinued operations in our consolidated financial statements. See note 3(e) to the consolidated financial statements.

***Acquisition of minority stake in Port Vanino***

On December 7, 2012, our subsidiary Mecheltrans won an auction to acquire 74,195 common shares (73.33% of the total common shares or 55% of the total shares) of Vanino Sea Trade Port OAO ( **Port Vanino** )

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for the total consideration of 15.5 billion rubles (approximately $501.4 million as of the auction date). In January 2013, the shares were transferred to Mecheltrans. In January 2013, Mecheltrans further sold 72,780 of the acquired shares to Russian and foreign investors which are outside of our group.

In addition, in January 2013 Mecheltrans acquired 21,892 common shares (21.64% of the total common shares or 16.23% of the total shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino from a minority shareholder. The aggregate consideration for the preferred shares was 275 million rubles (approximately $9.2 million) and was fully paid. The maximum aggregate consideration for the common shares is 4.77 billion rubles (approximately $158.8 million) which is to be paid by October 2013.

One of the foreign investors has granted Mecheltrans an option to sell and to require the investor to buy 22,707 common shares and 16,039 preferred shares for the maximum aggregate price of $174.6 million. The option can be exercised by October 2013.

Mecheltrans presently owns 23,307 common shares (23.04% of the total common shares or 17.28% of the total shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino.

Port Vanino is the largest seaport in Khabarovsk Krai, located in the Tatar Strait. Its infrastructure comprises sixteen berths, open and closed storehouses, cranes, cargo handling equipment and other port facilities.

***Receipt of waivers and covenant amendments under existing loan agreements***

Primarily as a result of the decline in market prices for our products throughout 2012, as of December 31, 2012, we were not in compliance with a number of financial covenants in various loan agreements. In April 2013, we received consents and covenant amendments relating to certain breaches under our loan agreements. In conjunction with the covenant amendment process, additional restrictions were imposed on our ability to make capital expenditures. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants , Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness and Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have not been in compliance with the financial covenants in certain of our credit facilities.

***New borrowings***

In April, 2013, we entered into a 40.0 billion ruble (approximately $1.3 billion) credit facility agreement with VTB Bank for a period of five years. The agreement provides for a 15-month grace period and repayment in equal installments on a quarterly basis.

In April 2013, each of our subsidiaries Beloretsk Metallurgical Plant and Urals Stampings Plant entered into a revolving credit facility agreement with Gazprombank. The aggregate loan amount is 3.3 billion rubles (approximately $106.9 million). The term of the facilities is three years with the term of each tranche of up to 24 months. The facilities provide for a bullet repayment.

In March and April 2013, our subsidiary Mecheltrans entered into two non-revolving credit facility agreements with Moscow Credit Bank with an aggregate loan amount of $88 million for a period of one year each. The agreements provide for a bullet repayment.

See note 26(c) to the consolidated financial statements.

***Redemption of Russian bonds series BO-02***

On March 12, 2013, we redeemed Russian non-convertible interest-bearing exchange bonds series BO-02 of aggregate principal amount of 5.0 billion rubles, which were issued in March 2010. As of December 31, 2012, the outstanding balance was $164.6 million. In our consolidated financial statements, it is classified as long-term debt since the obligations under these bonds were refinanced using proceeds from the long-term facility received from VTB Bank in April 2013. See note 26(c) to the consolidated financial statements.

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**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***

*We have not been in compliance with the financial covenants in certain of our credit facilities.*

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, dispositions of assets, corporate restructurings, investments into certain of our subsidiaries and others, require prior notice to or consent from the respective lenders.

In recent years we have from time to time been in breach of covenants in various loan agreements, but we have received waivers, consents and covenant amendments from the relevant lenders for such breaches. As of December 31, 2012, we were not in compliance with certain covenants in most of our credit facilities and loans entered into with several different lenders, including certain financial ratios, such as the net borrowings to EBITDA ratio. We obtained waivers from our lenders for such non-compliance and amended certain of our financial covenants for the period from June 2013 to June 2017. 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. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness.

Some of our credit facilities contain cross-default provisions that may be triggered by a default under one of 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. Although we believe that we have sought and received waivers for the breaches from our lenders under the relevant credit facilities, due to the presence of cross-default provisions in almost all of our credit facilities, the refusal of any one lender to grant or extend a waiver in the future could result in substantially all of our indebtedness being accelerated even if our other lenders have waived covenant defaults under the respective credit facilities. If our indebtedness is accelerated in full or in part, it could 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 would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares.

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 lenders credit decisions. This, in turn, is subject to 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. Any event of default under our loan agreement could result in acceleration of repayment of principal and interest under the relevant loan agreement and any other loan agreement under which a default on such instrument would trigger a cross-default,

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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.*

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 working capital needs and investment program in recent years. A substantial portion of our bank loans are from Russian banks, including state-controlled banks such as Gazprombank, Sberbank and VTB Bank. See Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. As of December 31, 2012, our consolidated total debt, including capital lease obligations, was $9,870.1 million, with a short-term portion of $1,592.8 million. Our interest expense for the year ended December 31, 2012 was $669.4 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 55%+1 share of Yakutugol, 55%+1 share of Southern Kuzbass Coal Company, 20% of Chelyabinsk Metallurgical Plant, 25%+1 share of Beloretsk Metallurgical Plant and 25%+1 share of Korshunov Mining Plant as of December 31, 2012. In January 2013, the number of pledged shares of Yakutugol and Southern Kuzbass Coal Company was reduced to 50%+2 shares of Yakutugol and 50%+2 shares of Southern Kuzbass Coal Company. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders. As of December 31, 2012, the carrying value of property, plant and equipment, inventory, cash and accounts receivable pledged under our loan agreements amounted to $1,339.6 million. See note 13(g) 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, 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.

Subject to market conditions and improvement of our corporate ratings, we are also contemplating accessing the international debt capital markets with the intention to diversify funding sources, further extend the maturity profile of our debt portfolio and reduce the refinancing risk with the peak repayments in 2013. 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.

*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 $0.9 billion during 2012 on our capital expenditures (including $164.5 million in maintenance capital expenditures). In view of our conservative outlook with respect to the financial and commodity markets development for 2013, we have reduced our planned capital expenditures for 2013 by approximately 56% as compared to 2012. In reducing our capital expenditures, we have focused 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 $0.4 billion in 2013 (including up to $119.9 million in maintenance capital expenditures). These planned capital expenditures cover investments in Yakutugol, including those required to be made pursuant to the terms of the subsoil license for the Elga coal deposit. We plan to spend up to $1.6 billion for the three-year period of 2013-2015 on capital investments (including up to $594.9 million in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program.

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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 that are beyond our control. Attracting 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 commodities and/or steel 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.

Most of our existing borrowings are from Russian and international banks and financial institutions, as well as through Russian ruble bonds. In the future we may also seek to access international capital markets. 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. International credit markets have experienced, and may continue to experience, high volatility and severe liquidity disruptions stemming from the effects of the international financial and economic crisis starting in 2008 and the related global economic slowdown, including the European sovereign debt crisis. These and other related events have had a significant impact on the global financial and capital markets, and we may not be able to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources may negatively impact our ability to sufficiently finance our capital investment program, which might have a material adverse effect on our business, financial condition, results of operations and prospects. See 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 cause the value of our shares and ADSs to fluctuate widely and Risks Relating to the Russian Federation Economic risks The Russian banking system is still developing, and another banking crisis could place severe liquidity constraints on our business.

*We faced a liquidity shortage during the global financial crisis and the resulting global economic slowdown.*

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 June 1, 2009. 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. During the period of 2010-2012, we further refinanced our credit facilities with syndicated pre-export credit facilities, obtained loans from Russian state-controlled banks 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 at Yakutugol) and financing of the increased level of inventories, primarily, due to expansion of Mechel Service Global s business. As of December 31, 2012, our total indebtedness was $9,390.2 million, a decrease of $6.7 million from December 31, 2011. Short-term portion of our total indebtedness was $1,460.8 million as of December 31, 2012 as compared to $2,651.4 million as of December 31, 2011. Working capital decreased to $421.1 million as of December 31, 2012 as compared to $1,333.4 million as of December 31, 2011. We expect operating cash flows, additional borrowings and proceeds from the divestment of non-strategic assets to provide source of funds in 2013 for debt servicing and refinancing and capital expenditures. Our ability to incur additional debt, however, is limited by our restrictive covenants. We have also engaged in the refinancing of our debt portfolio with longer term debt and reducing the capital expenditure program. See We have a substantial amount of

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outstanding indebtedness 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 August 2012, Moody s Investors Service changed our corporate family rating to B2 from B1 and changed the outlook on the rating to stable. The rationale for rating downgrade was our high leverage, downward pressure on coking coal and iron ore prices and softening of the global demand. In March 2013, Moody s Investors Service further revisited and downgraded our rating to B3 and changed the outlook to negative because of low coking coal prices as well as our impending breach of financial covenants in our loan agreements and uncertainties surrounding their renegotiation. We renegotiated our loan agreements in March through April 2013. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. Any change of our rating may reduce our opportunities to raise necessary debt financing as well as negatively impact the terms of such financing.

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodities and steel prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors, 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 us being unable 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, 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. If significant economic slowdown were to continue, we could face a liquidity shortage and breach our restrictive covenants, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

*Inflation could increase our costs and decrease operating margins.*

In 2012, 2011 and 2010 the inflation rate in Russia was 6.6%, 6.1% and 8.8%, respectively, according to the Russian Federal State Statistics Service ( **Rosstat** ). As we tend to experience inflation-driven increases in certain of our ruble-denominated costs, including salaries, rents and fuel and energy costs, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise, assuming the ruble-to-dollar exchange rate remains constant. See Changes in the exchange rate of the ruble against the U.S. dollar may materially adversely affect our results of operations. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products sufficiently to preserve operating margins. Accordingly, inflation in Russia could increase our costs and have the effect of decreasing operating margins.

*Any material change in our commercial dealings with, non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have a material adverse effect on our business, results of operations and financial condition.*

From late 2009 to present, we have been working 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 and Transactions with Metallurg-Trust. We work on a commercial basis with these companies, supplying raw materials to them and purchasing their products pursuant to short-term supply and purchase contracts. Revenues from sales to these companies amounted to $751.2 million and $842.0 million in the years ended December 31, 2012 and 2011, respectively. Purchases from these companies amounted to $874.6 million and $1,557.2 million in the years ended December 31, 2012 and 2011, respectively. Revenues from re-sales of products purchased from these companies to third parties amounted to $1,260.8 million and $1,293.5 million in the years ended December 31, 2012 and

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2011, 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, 2012 and 2011, these revenues represented 29.6% and 29.8%, respectively, of our group s total steel segment revenues. As of December 31, 2012, trade accounts receivable and other accounts receivable from these companies totaled $253.1 million, with credit terms varying from 30 to 180 days. In addition, as of December 31, 2012, prepayments to these companies totaled $187.0 million. We also have a large additional trading exposure to the related metallurgical plants and Metallurg-Trust OOO ( **Metallurg-Trust** ), a trading company mostly involved in supplying raw materials and semi-finished products to the Russian related metallurgical plants and reselling products produced by these plants. This additional trading exposure amounted to $440.1 million as of December 31, 2012. We closely monitor our balances with these companies, including our trade accounts payable to them. As of December 31, 2012, we created allowances in the total amount of $176.4 million against the accounts receivable and prepayments from these companies. The allowance for doubtful accounts may be increased in the future based on revised estimates of the management.

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.

Following our strategy to expand our sales network and decrease the production costs for steel products, 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. Both entities formed part of 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 9 to the consolidated financial statements.

As of December 31, 2012, 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 a $896.4 million provision for amounts due from related parties recorded for the year ended December 31, 2012. The main reason for the deterioration in value was negative trends in macroeconomic conditions which adversely affected the performance of the related metallurgical plants.

*Increased levels of indebtedness and restrictions on equity financings may limit our access to capital, which could have a material adverse effect on our business, financial condition, results of operations and prospects.*

We expect bank loans will continue to be a major source of financing in the near future. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital resources. Among other things, increased levels of indebtedness, particularly the restrictive financial covenants in our credit facilities, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility in planning for, or reacting 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 collateral 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. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants. We will also follow the market situation with the view to raise funding in international debt and equity markets.

In addition, 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

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American Depositary Shares representing our preferred shares ( **preferred ADSs** , the common ADSs and the preferred ADSs together referred to as **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 FFMS. 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 ). Our common and preferred shares have a listing status A-1 on Closed Joint Stock Company MIC 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. In light of on-going reform of the Russian securities market (see Risks Relating to Our Shares and the Trading Market Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary may be 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 ), the FFMS is considering allowing an issuer to have up to 100% of common or preferred shares to be circulated outside Russia. The draft order is currently under consideration, and we cannot predict when and in what format the new regulation will be adopted.

Any of the foregoing factors may limit our access to capital and harm our competitive position. If we cannot obtain adequate capital, we may not be able to fund our capital investment program and implement our business strategy.

*Changes in the exchange rate of the ruble against the U.S. dollar may materially adversely affect our results of operations.*

A majority 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. In 2012, the ruble depreciated in real terms against the U.S. dollar by 2.7% as compared with 2011, according to the CBR.

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

Much 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, if the Russian authorities 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.

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*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 with a monthly interval. Russian law also provides that, for a period of 30 days after 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, however, the court may not accept such a claim against subsidiaries existing in the form of an open joint-stock company if it concludes that the creditor had adequate security. 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.

*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 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 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 risk and uncertainty that are considered in the discount rate applied 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 and estimated value beyond proven and probable mineral reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers. Our reporting units with goodwill allocated for the testing purposes represent single entities with one component of business in each case.

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 goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

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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, 2012, an impairment loss of $707.9 million was recognized. This amount includes both impairment of goodwill of $368.9 million and long-lived assets of $339.0 million recognized in steel and ferroalloys segments as shown in the tables below:

| Company | Segment | Impairment Loss of Goodwill as for the Year Ended December 31, 2012 (In millions of U.S. dollars) |
|---|---|---|
| Donetsk Electrometallurgical Plant | Steel | 205.5 |
| Ductil Steel | Steel | 92.4 |
| Cognor Stahlhandel | Steel | 62.1 |
| Southern Urals Nickel Plant | Ferroalloys | 7.0 |
| Mechel Nemunas | Steel | 1.9 |
| Total | | 368.9 |

| Company | Segment | Impairment Loss of Long-lived Assets as for the Year Ended December 31, 2012 (In millions of U.S. dollars) |
|---|---|---|
| Ductil Steel | Steel | 115.2 |
| Southern Urals Nickel Plant | Ferroalloys | 94.3 |
| Mechel Targoviste | Steel | 48.8 |
| Laminorul Plant | Steel | 29.9 |
| Kazakhstansky Nickel Mining Company | Ferroalloys | 22.7 |
| Mechel Campia Turzii | Steel | 19.7 |
| Mechel Nemunas | Steel | 8.4 |
| Total | | 339.0 |

The amount of goodwill on our balance sheet as of December 31, 2012 that is subject to impairment analysis in the future is $798.8 million or 4.5% of our total assets. This amount includes goodwill of Kuzbass Power Sales Company of $64.1 million the fair value of which was only 2.0% over its carrying value as of December 31, 2012. See note 23 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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*We had in the past a material weakness in our internal control over financial reporting, and we make no assurances that any material weaknesses will not be identified in the future.*

In the past management identified a material weakness in our internal control over financial reporting as defined in the Exchange Act Rule 12b-2 and Rule 1-02 of Regulation S-X that affected our financial statements for the year ended December 31, 2011. The material weakness is described in Item 15. Controls and Procedures. Due to the effect of this material weakness, our auditors opined that we did not maintain effective internal control over financial reporting as of December 31, 2011 under Section 404 of the Sarbanes-Oxley Act of 2002. Our auditors also opined that we did not maintain effective internal control over financial reporting as of each of December 31, 2007, 2008, 2009 and 2010 due to the effect of the material weaknesses identified as of those dates.

The material weakness that was previously disclosed as of December 31, 2011 was remediated as of December 31, 2012. See Item 15. Controls and Procedures Management s Annual Report on Internal Control over Financial Reporting and Remediation Activities and Changes in Internal Control over Financial Reporting for a description of the material weakness that was reported as a result of the company s annual assessment as of December 31, 2011 and remediation of that material weakness. We implemented and executed our remediation plan, and as of December 31, 2012 our remediation plan activities were tested and the material weakness was considered remediated. However, we cannot assure you that no material weakness or significant deficiencies in our internal control over financial reporting will be identified in the future. If such weakness or deficiencies are identified, it could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in the market price of our shares and ADSs.

*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 could vary significantly in the future.

Our steel segment sells steel products, including semi-finished products, carbon and special steel long products, carbon and stainless flat products, wire products, forgings and stampings and others. The steel industry

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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 ferroalloys segment sells ferronickel, ferrosilicon and ferrochrome. These ferroalloy products are primarily used in the manufacture of steel. Thus, market demand for our ferroalloy products is very closely linked with the market for steel and generally follows the cycles of the steel industry.

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 the recent declines in production by steel and mining companies has impacted demand for power. Therefore, the 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, reduced 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 when ruble devaluation and inflation are taken into account.

As a result of the 2008 global economic downturn the demand and prices for our products sharply declined. The recent worldwide slowdown has had, and the European sovereign debt crisis and the continuing uncertainty as to economic recovery may have, adverse consequences for our customers and our business.

Prices for our products, including coal, iron ore, metals 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, mining and ferroalloys industries are highly competitive, and we may not be able to compete successfully.*

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

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Our competitiveness is based in part on our operations in Russia and other former Eastern Bloc countries 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 during the last three years with rail tariff increases of 9.4% in 2010, 8.0% in 2011 and 6.0% in 2012. See Recent and potential developments in the Russian rail transportation sector 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.

*Terrorist attacks and threats, escalation of military activity, as well as massive cyber attacks or incidents, 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, as well as massive cyber attacks or incidents, 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.

*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 assembled and analyzed by our staff, which includes various engineers and geologists, and which is reviewed by independent mining engineers only periodically, approximately once in three years. The reserve estimates as to both quantity and quality are periodically updated to reflect production from the reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities of and 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, severance 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. In addition, we have not yet applied for all of the permits required, or constructed the mines necessary, to use all of our U.S. reserves. We may be unable to obtain such permits. Some of these permits are becoming increasingly difficult and expensive to obtain and the authorization process continues to lengthen.

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

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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 debt 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.*

There are a number of significant risks associated with the greenfield development of the Elga coal deposit. These risks 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 economic viability of the project is dependent upon the full use of the rail line; (3) the project requires significant capital expenditures to develop the required infrastructure and increases in planned capital and operating costs could make the project uneconomical because of the project s sensitivity to these costs; (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. See Item 4. Information on the Company Mining Segment Coal production Yakutugol mines. 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. The realization of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects.

*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.*

While we expect continued growth of demand in the Russian market for special steel long products, our strategy to expand these sales substantially 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 Item 8. Financial Information Litigation Antimonopoly.

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal, 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.

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In particular, the current annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line, is 16.5 million tonnes, which will need to expand substantially to meet our needs when Elga Open Pit reaches its full planned annual production capacity of 20.0 million tonnes of saleable coal by 2023. Russian Railways plans to double the capacity of the Baikal-Amur Mainline by 2020 as well as increase capacity of the Komsomolsk-on-Amur Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 35.9 million tonnes per annum. 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 Mainline. We cannot guarantee that these development projects by Russian Railways will proceed according to current plans. 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. A 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.

*Changes in our subsidiaries management and corporate governance might affect our integrated business model.*

While we intend to continue to operate as an integrated business, if and when listing of shares takes place in respect of the subsidiary holding companies we have formed or intend to form to consolidate our mining and steel assets, changes to the management structure of such subsidiary holding companies and/or the assets consolidated within them may be made in preparation for listing. In such cases, the subsidiary s directors and management would operate the business of such subsidiary, in accordance with applicable law, for the benefit of all shareholders, including minority shareholders, if any. In the past, we have considered to list some of our subsidiary holding companies and may do so in the future.

Companies listed on stock exchanges have to comply with certain corporate governance requirements. We generally consider applying higher corporate governance standards and improving our management practices, including appointment of independent directors, at some of our subsidiaries. In particular, a number of directors on the board of directors of Mechel Mining which are independent under applicable Russian regulations has increased, and now they constitute the majority of the board. These and other changes in the future may result in decision-making by the directors and management of such subsidiaries, including with respect to payment of dividends, that may not be consistent with our current integrated business model. As our integrated business model is important to our strategy, changes in decision-making by our subsidiaries directors and management may materially adversely affect 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, and our business strategy will likely involve the acquisition of additional privatized companies. 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 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

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Yakutugol and a 68.86% stake in Elgaugol in 2007 from two state-owned companies in a tender process. After the acquisition, the Elga subsoil license was transferred from Elgaugol to Yakutugol in March 2008 and Elgaugol was liquidated in September 2009.

The Russian statute of limitations for challenging privatization transactions is three years. However, because Russian privatization legislation is vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatization legislation, and the statute of limitations for challenging certain actions related to privatization may be argued to begin to run only upon the discovery of a violation, many privatizations are vulnerable to challenge. 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 and Kazakh 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 government 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 mining and other permits or fail to comply with the terms of our subsoil licenses and mining and other 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. The termination or suspension of certain of our subsoil licenses constitutes an event of default under certain of our credit facilities and loans, and is likely to result in a cross-default in other of our credit facilities and loans. 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 2013 through 2037. Our most significant subsoil licenses expire between 2013 and 2024. 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 coal production at the Raspadsk license area (part of Olzherassky Open Pit)

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and the Sorokinsk license area (part of Krasnogorsky Open Pit) in 2009 due to unfavorable economic conditions, but expect to commence such production at the Raspadsk license area in the second quarter of 2013. In February 2012, we commenced production at the Sorokinsk license area. 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. 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. The Yerunakovsk-2 and Yerunakovsk-3 license areas are not counted for the purposes of our coal reserves.

In the course of inspections conducted in November 2011 and April and March 2012, the Russian Federal Service for the Supervision of Natural Resources ( **Rosprirodnadzor** ) discovered certain violations of the terms of subsoil licenses held by Southern Kuzbass Coal Company and Yakutugol. The Federal Agency for Subsoil Use requested that we rectify these violations, and in May and December 2012, we presented reports on measures we had implemented. Our reports were accepted by the Commission for Termination of Subsoil Licenses of the Federal Agency for Subsoil Use (the **Commission for Termination of Subsoil Licenses** ) and the Commission for Termination of Subsoil Licenses is not currently considering the termination of subsoil licenses held by Southern Kuzbass Coal Company and Yakutugol. See Item 4. Information on the Company Regulatory Matters Subsoil Licensing in Russia Maintenance and termination of licenses and Item 8. Financial Information Litigation.

Our Bluestone operations in the United States are subject to risks relating to mining and other permits required under U.S. federal and state laws. See Risks Relating to Other Countries Where We Operate We must obtain, maintain and comply with numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain, renew or comply with necessary permits and approvals could negatively impact our business. The federal agencies responsible for issuing the necessary permits required to conduct mining operations in the United States have increased their scrutiny of permit applications. This is discussed in greater detail below. This has resulted in the permitting process taking longer and becoming more costly in recent years. In addition, citations for violations of those permits have become more frequent and remediation costs associated with correcting such violations have increased substantially.

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

In 2012, our Russian operations purchased approximately 6.0 billion kilowatt-hours ( **kWh** ) of electricity, representing 100% of their needs, at a total cost of $433.3 million, implying an average cost of 7.3 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. This could lead to higher electricity prices. According to information published by the Russian Federal Tariff Service (the **FTS** ), the average increase in market prices and tariffs on the retail electricity market was 6.6% in 2012, and is expected to be in the range of 9% to 11% in 2013-2014. 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 2012, we purchased 2,214.3 million cubic meters of gas at a total cost of $206.5 million. Russian domestic natural gas prices are significantly below Western European levels, which presently helps to provide 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 the second half of 2012, 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 $62.2 to $150.4 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

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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 7.8%, 2.8% and 5.2% in 2012, 2011 and 2010, respectively. Moreover, labor costs in Russia are indexed to and adjusted for inflation. 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.

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.

*Recent and potential developments in the Russian rail transportation sector 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, such as, including, terms related to the type of rolling stock to be used for transportation of certain types of cargo; estimated minimum tonnage for the purposes of determining the applicable tariff and others. 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. In addition, the establishment of the Russian Railways subsidiaries JSC Freight One and JSC Freight Two and the transfer of 90% of the rolling stock to them, as part of the reform of the Russian rail transportation sector, have led to a significant increase in the cost of use of freight cars. In October 2011, Russian Railways sold 75% minus two of the shares of JSC Freight One through a public auction to a private operator. In November 2012, JSC Freight Two was renamed to JSC Federal Freight.

The most significant railcar owners are JSC Freight One, OJSC Novaya Perevozochnaya Kompaniya, NefteTransService ZAO and JSC Federal Freight. 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 2012, our freight volume transported by JSC Freight One, OJSC Novaya Perevozochnaya Kompaniya, NefteTransService ZAO and JSC Federal Freight amounted to 9.6 million tonnes, for which we paid $130.6 million.

In 2012, railway tariffs were indexed once, which resulted in a 6.0% tariff increase. With effect from January 1, 2013, all railway tariffs have been increased by an additional 7.0%. If rail freight prices continue to increase, or if there is a disruption in the transportation of our materials and products due to a shortage of available working rolling stock, it could negatively impact our operating margin and could materially adversely affect our business, financial condition, results of operations and prospects.

*We face certain trade restrictions in the export of certain of our steel and ferroalloy products to the E.U.*

The E.U. has imposed antidumping duties on certain of our steel exports. In particular, an antidumping E.U. import duty in the amount of 50.7% was applicable to steel ropes and cables manufactured by our Beloretsk Metallurgical Plant until October 2007. After a review procedure conducted by the E.U. in October 2007, this duty was reduced to 36.2% and imposed for a period of five years. The European Commission has recently initiated an expiry review of the antidumping measures applicable to imports of steel ropes and cables originating in Russia. We cannot predict the outcome of this review and whether the antidumping duty will be renewed.

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Our ferroalloys business also faces export restrictions. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the E.U. 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. We cannot predict the outcome of this review and whether the antidumping duty will be renewed.

We may face new trade restrictions in the E.U. and other markets in the future. See Item 4. Information on the Company Steel Segment Trade restrictions and Item 4. Information on the Company Ferroalloys 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 2012. 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%. 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 December 26, 2010, Russia imposed an antidumping duty on corrosion-resistant steel originating in China (including Taiwan), South Korea, Brazil and South Africa at the rate ranging from 4.8% to 62.8% per tonne. This duty is imposed until December 26, 2013 and will benefit our sales on the Russian market while it is in force; elimination of this duty may have negative effect on our sales. Since June 22, 2011, this antidumping duty is valid throughout the Customs Union.

Upon Russia s entry into the World Trade Organization ( **WTO** ), the import tariffs and duties of Russia were reduced or eliminated, depending on 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 E.U. 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 Chemical 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 E.U. 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 E.U. in an amount over 1,000 tonnes per year, and which are subject to REACH registration. Under REACH, the next registration for substances in the 100 to 1,000 tonnes per year tonnage band is to be completed prior to June 1, 2013. 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

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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 taking place until 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.

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) discharges 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 operation for 17 calendar days) and on July 29, 2008 there was a methane flash (which led to suspension of operation for 67 calendar days). Both accidents involved multiple casualties, and the first accident resulted in five fatalities. In 2010 through 2012, there were also 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. We have been and are still implementing measures to cure the reasons 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

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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 December 2012 operations at our open pit mines in Russia were suspended for a period of 2 to 7 days due to abnormally low temperatures. 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, clean-up 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 operation and prospects.*

Our operations and properties are subject to environmental, worker protection and industrial safety and other 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 hazardous 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 some requiring the clean-up of contamination and reclamation, such as requirements for cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related clean-up 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 E.U. 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. See note 25(b) to the consolidated financial statements.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2012, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of $49.9 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 $9.0 million as of December 31, 2012. These amounts are not accrued in the consolidated financial statements until actual capital investments are made.

Also, 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 March 2011, Rosprirodnadzor claimed 287 million rubles from Chelyabinsk Metallurgical Plant as compensation for damage caused by discharging waste water into the river Miass. This claim was settled by way of amicable agreement approved by the arbitrazh court, pursuant to which Chelyabinsk Metallurgical Plant has paid the compensation in the amount of 130.2 million rubles. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective

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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.

The assets and operations of Bluestone based in West Virginia are subject to U.S. environmental and other regulatory risks. See Risks Relating to Other Countries Where We Operate. In particular, in early 2011, our Bluestone operations suspended work on the construction of a coal washing facility because certain limitations contained in the environmental permissions issued with respect to mining activities restricted increases of mining volumes which led to the underutilization of existing washing facilities.

In addition, we are generally not indemnified against environmental liabilities or any required land reclamation expenses of our acquired businesses that arise from activities that occurred prior to our acquisition of such businesses. See We may fail to identify suitable targets, acquire them on acceptable terms, identify all potential liabilities associated with them or successfully integrate them into our group.

*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 and ferroalloys segments. A major by-product of burning coal is carbon dioxide ($CO_2$), which is considered to be a greenhouse gas 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 E.U. has established greenhouse gas regulations and many other countries, including the United States, 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 E.U. Our operations in Lithuania are currently subject to the EU ETS, as are our E.U. based customers.

In the United States, various federal, regional and state initiatives to regulate greenhouse gas emissions have been implemented or are under consideration, and, it appears likely that additional national, regional and state regulation of actual greenhouse gas emissions will be enacted in the future. For example, legislation is under consideration in the U.S. Congress that would create a cap-and-trade system for greenhouse gas emissions. Furthermore, the U.S. Environmental Protection Agency ( **EPA** ) has taken the first steps towards implementing a comprehensive greenhouse gas policy that may adversely affect the business of our Bluestone companies.

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, Russia, although subject to greenhouse gas emission limits for the period until December 31, 2012, has refused to sign up for the second period of limits and intends to withdraw from the Kyoto Protocol.

The Kyoto Protocol, the EU ETS and current and future regulation of greenhouse gas emissions in the United States 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, income and cash flows and on our suppliers and customers, which could result in higher costs and lower sales. Inconsistency

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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. Government 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.

*We may fail to identify suitable targets, acquire them on acceptable terms, identify all potential liabilities associated with them or successfully integrate them into our group.*

We are a vertically integrated group with operations organized into mining, steel, ferroalloys and power segments, which allows us to benefit from economies of scale, realize synergies, better satisfy the needs of our Russian and international customers, reduce our reliance on third party brokers by distributing and selling our products directly to end users, and compete effectively against other mining and steel producers. Our strategy is to become one of the largest mining companies globally with a strong integration into steel. We intend to enhance the profitability of our business by applying our integration strategy to a larger asset base and, towards that end, on an ongoing basis we need to identify suitable targets that would fit into our operations, acquire them on terms acceptable to us and successfully integrate them into our group. We often compete with Russian and international companies for acquisitions, including for subsoil licenses.

The acquisition and integration of new companies pose significant risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources; and
- incurrence of debt to finance acquisitions and higher debt service costs related thereto.

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In addition, new acquisitions may require significant initial cash investments for integration or upgrades. Furthermore, even if we are successful in integrating our existing and new businesses, expected synergies and cost savings may not materialize, resulting in lower than expected operating margins.

We have acquired and established businesses in countries that represent new operating environments for us and which are located at a great distance from our headquarters in Russia. These businesses conduct operations in accordance with local customs and laws. For example, through our acquisition of the Bluestone companies in May 2009, and our establishment of Mechel Bluestone Inc., a Delaware corporation that holds the Bluestone companies, we now have significant operations, assets and employees in the United States which are subject to U.S. federal and state laws and regulations.

In some instances we conduct limited due diligence investigations in connection with our acquisitions and the contractual documentation does not contain representations and warranties and indemnities to protect against unidentified liabilities and other losses. Moreover, these acquired businesses may not have financial reports prepared under internationally accepted accounting standards. Accordingly, these businesses may face risks that we have not yet identified and that are not described in this document and we may not realize the full benefit of our investment, which could have a material adverse effect on 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.*

Our Chairman, Igor Zyuzin, directly and indirectly owns approximately 65.49% of our common shares. Except in certain cases as provided by the Federal Law On Joint-Stock Companies, dated December 26, 1995, as amended (the **Joint-Stock Companies Law** ), resolutions at a general shareholders meeting are adopted by a majority of the voting stock at a meeting where shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by a majority of the voting stock present at a general shareholders meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority of the voting stock present at such a general shareholders meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in the meeting. We have also engaged and will likely continue to engage in transactions with related parties, including our controlling shareholder, that 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 or transactions that may expose us to risks outside the ordinary course of business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. Thus, our controlling shareholder can take actions that you may not view as beneficial, and as a result, the value of the shares and ADSs could be materially adversely affected.

*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.

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*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, 2013, seven 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:

*Beloretsk Metallurgical Plant* as controlling more than 65% of the market for local telephony services in Beloretsk;

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

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

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

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

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

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

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

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

to avoid 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;

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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.

On October 10, 2008, the FAS issued two new directives addressed to Mechel Mining Management with respect to Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market, ordering Mechel Mining Management to fulfill the following requirements:

not to reduce or terminate production of coking coal concentrate without prior approval of the FAS, unless there is no demand for such products;

to perform all contracts related to coking coal concentrate production or other products (works or services) in relation to which these companies are or may be included in the register of entities with a market share exceeding 35% in the relevant market; and

to provide equal supply terms to all customers without discriminating against companies outside of Mechel Mining Management group and to avoid terms of supply which would compensate Mechel Mining Management group for unjustified expenses or yield Mechel Mining Management group any profit that is significantly higher than it could be in a competitive market.

In connection with the consolidation of our ferroalloy assets under our subsidiary Oriel Resources, in October 2008 the FAS issued a directive addressed to Oriel Resources, and in November 2008 the FAS issued an additional directive addressed to Mechel and Bratsk Ferroalloy Plant. The requirements under these directives are substantially similar to those described above in connection with the directives dated October 10, 2008, except: (1) that they relate to our production and sales of ferrosilicon; and that (2) the directive addressed to Mechel and Bratsk Ferroalloy Plant also requires them to satisfy ferrosilicon demand on the Russian market, where they hold a dominant position, subject to available production capacity, and to maintain production and equipment required for the ferrosilicon production and supply.

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: (1) 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; (2) submit to the FAS during the next 5 years economic justifications of each coking coal concentrate price increase of more than 5% as compared to the prices of previous quarter; (3) reduce sale prices by 15% for the period from September 2008 until December 2008; and (4) execute long-term supply contracts of at least three years duration with effect from 2009. 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. See Item 8. Financial Information Litigation Antimonopoly.

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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 of first, electricity generation and/or sale assets and second, 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, Southern Urals Nickel 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 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 the regulation is new, there is no official guidance or court practice clarifying this matter and 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.

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*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.

*In the event certain minority shareholder lawsuits are resolved against us, our financial condition and results of operations could be materially adversely affected.*

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, as a practical matter, we may not receive notice. Any such actions by minority shareholders, if resolved against us, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

As of December 31, 2012, approximately 60% 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 agreement for ore mining and smelting industry and have renegotiated most of related collective bargaining agreements. We have also signed the industry agreement for coal industry, and we are currently renegotiating related collective bargaining agreements. If we are unable to prolong collective bargaining agreements on similar conditions 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.

Approximately half of the Bluestone companies workforce is presently represented by the United Mine Workers of America ( **UMWA** ) labor union and is covered by the Bituminous Coal Wage Agreement of 2011

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which expires at the end of 2016. Though we believe the Bluestone companies have a good relationship with the UMWA, there are no assurances that these relations will not deteriorate in the future. Our U.S. employees have the right at any time under the U.S. National Labor Relations Act to form or affiliate with a union and the current presidential administration in the United States has indicated that it will support legislation that may make it easier for employees to unionize. Any further unionization of employees could adversely affect the stability of our U.S. production and negatively impact the financial performance of our U.S. operations. In addition, due to the increased risk of strikes and other work-related stoppages that may be associated with union operations in the coal industry, our competitors who operate without union labor may have a competitive advantage in areas where they compete with our unionized operations.

*Bluestone companies have liabilities with respect to post-retirement benefits for our U.S. employees, which could be more burdensome if certain factors beyond our control are changed or corrected.*

The Bluestone companies we acquired have long-term liabilities with respect to pension obligations and post-retirement welfare benefit plans. The Bluestone companies contribute to multi-employer defined benefit pension plans sponsored by the UMWA. In the event of our partial or complete withdrawal from any multi-employer plan which is underfunded, we would be liable for a proportionate share of such plan s unfunded vested benefits. In the event that any other contributing employer withdraws from any plan which is underfunded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then we, along with the other remaining contributing employers, would be liable for our proportionate share of such plan s unfunded vested benefits. At June 30, 2012, the UMWA Pension Plan reported unfunded vested benefits to be $5.0 billion. Furthermore, in September 2011, the UMWA Funds reported to the United States Department of the Treasury, as required under the Pension Protection Act of 2006, that the UMWA pension plan is in Seriously Endangered Status for the plan year beginning July 1, 2011 due to funded percentage below 80%. When a pension plan is certified to be in seriously endangered status, federal law requires the plan to adopt a funding improvement plan aimed at restoring the financial health of the plan. The funding improvement plan may include increased contributions to the plan and/or modifications to certain future benefit accruals. Now, it is up to the Bituminous Coal Operators Association ( **BCOA** ) and the UMWA to negotiate such an improvement plan. As the signatory companies will be bound to whatever the BCOA and the UMWA negotiate as to an improvement plan, Bluestone s signatory companies may see a required higher level of contributions in the future.

The Bluestone companies post-retirement medical obligations have been estimated based on actuarial assumptions, including actuarial estimates, assumed discount rates, estimates of life expectancy, and changes in healthcare costs. If our assumptions relating to these benefits change in the future or are incorrect, we may be required to record additional expenses. In addition, future regulatory and accounting changes relating to these benefits could result in increased obligations or additional costs, which could also have a material adverse effect 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 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.

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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 Russia, Ukraine, Kazakhstan and other emerging countries 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.

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

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

***Risks Relating to Our Shares and the Trading Market***

*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 18 to the consolidated financial statements.

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*Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary may be 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 from January 1, 2013, a new system of recording the depositary s rights to the shares underlying depositary receipts was introduced by 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 should now be 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. There is a one-year transition period which expires on November 6, 2013 when depo accounts of depositary programs should be opened for depositaries and shares represented by depositary receipts should be re-recorded from depositaries owner s account to depo accounts of depositary programs.

In addition to the new recording system, 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 regulations setting forth the specific requirements for the information disclosure are yet to be published by the FFMS. Since the central depositary was just established and relevant depo accounts of depositary programs have not yet been opened, the FFMS by its information letter No. 12-DP-01/54910 dated December 25, 2012 stated that until the depo accounts are opened, but not later than November 6, 2013 the depositary s voting and dividends rights are not conditional upon disclosure of information on depositary receipt owners. Furthermore, any obligations of the depositary to disclose information on depositary receipt owners in order to receive dividends will be abolished effective January 1, 2014 pursuant to Federal Law No. 282-FZ of December 29, 2012 ( **Federal Law No. 282-FZ** ). However, during the period between November 6, 2013 (or earlier, when the depo accounts in relation to our ADSs and GDSs are opened) and January 1, 2014 the depositary will be subject to the above disclosure obligations in order to receive dividends.

Currently, pending the adoption of relevant regulations by the FFMS, 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 Federal Law No. 415-FZ and the pending regulations by the FFMS will be compatible with how depositary receipt programs have been 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 such that they would consider investments in our ADSs less attractive.

In addition, Federal Law No. 415-FZ requires the foreign depositary to provide information on depositary receipt owners and other securities intermediaries to the issuer, state arbitrazh courts, the FFMS and governmental investigative authorities upon their request, and depositary receipt owners and other securities intermediaries are required to provide such information to the depositary upon its request. The FFMS is entitled to demand the depositary to cure any breach of such disclosure requirements, and if the depositary fails to cure, the FFMS may suspend or limit any operations with depo accounts of depositary receipt program for up to six months. It is unclear how the FFMS 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 issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) a percentage of shares which exceeds any

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

*ADS holders may be unable to repatriate their earnings.*

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

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*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 may potentially be reduced to 5% or 10% 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. However, Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that such benefits can be obtained. The Russian tax rules applicable to ADS holders are characterized by significant uncertainties. In a number of clarifications, the Ministry of Finance of the Russian Federation expressed a view that ADS holders (rather than the depositary) should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to the taxation of dividend income from the underlying shares, provided that the tax residencies of the ADS holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the ADS holders in this regard. Thus, we may be obliged to withhold tax at standard 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 income 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 tax either at the source in Russia or 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

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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, 55,502,766 preferred shares are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by James C. Justice II, James C. Justice III, James C. Justice Companies Inc. and Jillean L. Justice (collectively, the **Justice persons** ) and the public. The Justice persons acquired their preferred shares in connection with the sale of their Bluestone coking coal business located in Beckley, West Virginia to us in May 2009. During 2010 and 2011, the Justice persons disposed some of the preferred shares they held. As of April 20, 2011, immediately after the offering of preferred shares by the Justice persons in 2011, they owned 26,044,572 preferred shares. The Justice persons may dispose of all or part of the remaining preferred shares they hold through one or more offerings or broker trades in the future. It is also possible that we may decide to offer additional preferred shares and preferred ADSs in the future, including the 55,502,766 preferred shares held by our wholly-owned subsidiary 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.

*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, steel and ferroalloys 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;

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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, Ukraine, Kazakhstan, E.U. countries and the United States;

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 and 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.

***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 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. 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.

***Economic risks***

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

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

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product, a relatively stable Russian 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 gross domestic product s growth rate, ruble depreciation and a decline in domestic demand. The Russian government has taken 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 by

7.8% in 2009, the Russian gross domestic product grew by

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4.3% in 2010, by 4.3% in 2011 and by 3.4% in 2012, according to Rosstat. However, the full impact of global economic crisis on Russia is not yet clear, and it is possible that the Russian economy could continue to be impacted in the near future. 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 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. 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 global financial crisis on the Russian banking system has been contained by the actions by the CBR, the risk of further instability remains high. With few exceptions (notably the state owned banks), the Russian banking system suffers from 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 recent global financial crisis, Russian banks were faced with a number of problems simultaneously, such as 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).

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. The continuation or worsening of the banking crisis or the bankruptcy or insolvency of the banks in which we hold our funds could affect our ability to complete banking transactions in Russia, which 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, European sovereign debt crisis 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 or an increase in the perceived risks associated with investing in emerging 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 could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. 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 tariffs and/or antidumping measures by any of its principal export markets.

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

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the net assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 23 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, recent protests against falsification of results of 2011 and 2012 parliamentary and presidential elections and the government in general, as well as to demands for autonomy from particular regional and ethnic groups.

Massive popular protests, failure by the government to continue and effectively implement political and economic reforms, changes in the government, conflicts between federal government and regional or local authorities, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to social, political or governmental instability or the occurrence of conflicts among powerful economic groups, resulting in an adverse impact on Russia s economy and investment climate, 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. If we, our managers or counterparties are accused of involvement in government corruption, the resulting negative publicity could disrupt our ability to conduct our business and impair our relationships with customers, suppliers 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.

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*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. In 2012, Rosstat estimated Russia s population at 143 million, a decline of 5.5 million from 1992. An increase in migration and a reduction in the natural decline of the population recently resulted in a slowdown in the population decrease followed even by some temporary population growth. However, the birth rate remains relatively low, which together with the aging and high mortality of the population are the main problems of Russia s demographic development. Russia s working age population is estimated to decline by 10-20 million by 2025. If the present trend continues without a migration inflow to Russia, the decreasing working population will become a barrier to economic growth around 2015, according to the National Human Development Report for the Russian Federation produced by the United Nations Development Program in 2008. A shortage of skilled Russian labor combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

***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.

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

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

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

- inconsistencies between and among the Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- rapid enactment of many laws and regulations resulting in their ambiguities and inconsistencies;
- the lack of fully developed corporate and securities laws;
- substantial gaps in the regulatory structure due to the delay or absence of implementing legislation;
- 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.

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 voluntarily 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

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applicable damages, and governmental authorities may seek involuntary liquidation of the company. Certain Russian companies have negative net assets 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 following subsidiaries with negative net assets: IzhevskSotsSfera, UralSotsSfera, CenterSotsSfera, ZapadSotsSfera, Port Kambarka, Metals Recycling, VtorResource-Yuzhny, Thermal Grid Company of Southern Kuzbass, Tikhvin Ferroalloy Plant, Management Metallurgical Equipment Repair, Mechel Mining Management, Shakhtspetsstroy, Sky-Extra, Mechel-Remservice, SotsResource, Maritime Cargo Shipping, Mecheltrans Vostok, ZMZ-Energo, Nytva-Energo, Trans-Auto and Lomprom Rostov.

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 and Item 8. Financial Information Litigation Antimonopoly.

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

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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.

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

The Civil Code of the Russian Federation, as amended (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 filing of an application 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.

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*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 are maintained by the companies themselves or, if a company has more than 50 shareholders, 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 both companies maintaining their own registers and 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 profits 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 an 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

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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.

In May 2009, the Russian President proposed legislative changes in his Budget Message regarding the Budget Policy for 2010-2012 to reform the anti-avoidance mechanism of double tax treaties. A law envisaging the introduction of the concept of an actual recipient of income to the Russian Tax Code was drafted in late 2009. Although the draft law neither uses the term beneficial owner nor defines the term actual recipient of income (which is used in Russian official versions of all double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation, and to combat the abuse of double taxation treaties where the beneficiaries of income reside in jurisdictions that do not have double taxation treaties with Russia. Furthermore, the Russian government proposed legislative changes to the anti-avoidance mechanism with respect to double tax treaties, as well as creating tax incentives to move organizations from offshore to Russia as set forth in Main Directions of the Russian Federation Tax Policy for 2011-2013 dated May 2010 and in Main Directions of the Russian Federation Tax Policy for 2012-2014 dated July 2011. In addition, by its Main Directions of the Russian Federation Tax Policy for 2013-2015 dated May 2012 the Russian government proposed to introduce a term actual recipient of income to the tax legislation. We cannot predict how the above governmental proposals will be implemented in practice, and it is also unclear how, if introduced, it will be interpreted and applied by the tax authorities and/or courts and what effect it may have on taxpayers, including us.

Moreover, 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 Combined Taxpayer Group. The main provisions of the law came into force on January 1, 2012. The law provides for formation of a combined taxpayer group 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 combined taxpayer group. Starting from 2013, 16 companies of our group have formed a combined taxpayer group, with Mechel being a responsible party. The formation of the combined taxpayer group will allow us to determine the taxable income with profit and loss offset of all the companies included in the combined taxpayer group and to pay profit tax from total aggregate income under the combined taxpayer group, starting from January 1, 2013.

However, regardless of being a member of the combined taxpayer group or not, Mechel and our Russian subsidiaries pays Russian taxes on dividends they receive from other companies in our group. Intercompany dividends are subject to a withholding tax of 0% or 9% (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. Dividends from foreign companies to Russian companies are subject to a tax of 9%. 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.

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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.

*Vaguely drafted Russian transfer pricing rules expose 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 affiliated entities 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. The Russian transfer pricing rules are vaguely drafted, and are subject to different interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities have challenged in the past and may continue to challenge our prices and make adjustments which could result in significant additional liabilities. For example, as a result of a tax audit in 2009 for the period from 2005 to 2007, Korshunov Mining Plant was subject to an additional tax assessment related to transfer pricing and related fines and penalties in the total amount of 73.3 million rubles for the year 2005. Korshunov Mining Plant contested these claims up to the Supreme Arbitrazh Court but the court rejected our appeals. In June 2011, the tax authorities completed their audit for the period from 2008 to 2009. They found similar violations and issued an additional tax assessment and related fines and penalties in the total amount of 120.5 million rubles. Korshunov Mining Plant is currently contesting these tax assessments in court. See Item 8. Financial Information Litigation Tax. Under Russian law, tax authorities may audit a company for violations of transfer pricing rules over the last three calendar years preceding the year of the audit. See also 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.

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 existing 20% safe harbor for price deviations. The rules also introduce specific documentation requirements for proving market prices. 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 transfer pricing adjustments and we are unable to successfully challenge them in court, 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 carries out exploration and production on land plots with nickel and cobalt ore deposits which are included in the official list of subsoil plots of federal importance first published on March 5, 2009 in the Russian official newspaper *Rossiyskaya Gazeta* and as amended on August 13, 2010 (the **Strategic Subsoil List** ), it qualifies as a Strategic Company and is subject to special regulation. Our subsidiaries Port Posiet, Port Kambarka and Port Temryuk are included in the register of natural monopolies, and therefore are also Strategic Companies.

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According to the Strategic Industries Law, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be strategic activity. Our subsidiary Urals Stampings Plant produces and sells carbon, alloyed and heat-resistant alloyed stampings. Such products are of a type generally used in the production of weapons and military equipment. Therefore, Urals Stampings Plant may also qualify as a Strategic Company. Furthermore, entities producing and distributing industrial explosives are also deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol, Vzryvprom and Korshunov Mining Plant also qualify as Strategic Companies, as they both hold licenses to produce industrial explosives and licenses to distribute 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 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 Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and, possibly, 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 Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and, potentially, 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 Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and, potentially, 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.

***Risks Relating to Other Countries Where We Operate***

*We face risks similar to those in Russia in other countries of the former Soviet Union and former Soviet-bloc countries in Eastern and Central Europe.*

We currently have a wire products plant in Lithuania, a steel mill in Ukraine and two mining projects in Kazakhstan. We may acquire additional operations in countries of the former Soviet Union, former Soviet-bloc countries in Eastern and Central Europe or elsewhere. As with Russia, those countries are emerging markets subject to greater political, economic, social, tax and legal risks than more developed markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out above in Economic risks, Political and social risks and Legal risks and uncertainties.

*New regulatory requirements for obtaining certain permits under Section 404 of the Clean Water Act may result in delays, additional costs or the inability to proceed with certain U.S. mining operations.*

For some of our proposed U.S. mining operations, we will need to obtain certain permits issued by the United States Army Corps of Engineers ( **Corps** ) under the Clean Water Act § 404 ( **404 Permits** ). Such

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permits are required in order to undertake construction of valley fills, coal refuse disposal areas, and other activities associated with those operations that would have the effect of filling (covering) ephemeral, intermittent or perennial streams. Since approximately 2003, the Corps issuance of 404 Permits for coal-related fill projects (especially large-scale surface mines) has been the subject of continual litigation and other challenges by environmental groups, resulting in several court opinions that had the effect of substantially restricting issuance of such permits and curtailing coal production.

On June 11, 2009, the EPA, Corps, and other U.S. agencies with control over this permitting program issued a Memorandum of Understanding ( **MOU** ) that identified several steps that will be taken as to pending and future 404 Permit applications, in order to implement an Enhanced Coordinated Review Process for the purpose of significantly reducing the harmful environmental consequences of Appalachian surface coal mining operations. The EPA followed up on the MOU by releasing its Financial Guidance on Improving EPA Review of Appalachian Surface Coal Mining Operations under the Clean Water Act, National Environmental Policy Act, and the Environmental Executive Justice Order on July 21, 2011. The EPA s final guidance replaced interim guidance released on April 1, 2010. Since release of the MOU and the other guidance documents, few 404 Permits have been issued, and each of those permits that were issued included modifications to the proposed mining plan and additional environmental monitoring provisions that require adaptive management and revisions to mine plans should certain indicia of harm to the aquatic system be observed. Companies with 404 Permit applications that have been pending for a year or longer are currently required to engage in meetings with Corps and EPA staff before those applications are submitted for further processing, and the timeline for issuance of such permits is uncertain. It is also widely expected that some of those permit applications will be denied, or that the EPA will exercise its Clean Water Act veto authority over some 404 Permits that are issued by the Corps. For example, in January 2011, the EPA for the first time exercised its veto power by rescinding a federal Clean Water Act permit held by another coal mining company for a surface mine in Appalachia.

In addition, partly in response to regulatory turmoil created by the EPA s involvement in the U.S. Clean Water Act 404 and National Pollutant Discharge Elimination System ( **NPDES** ) permitting programs, in August 2010, the West Virginia Department of Environmental Protection ( **WVDEP** ) issued its Permitting Guidance for Surface Coal Mining Operations to Protect West Virginia s Narrative Water Quality Standards ( **WVDEP Narrative WQS Implementation Guidance** ). The basic narrative water quality standard that this Guidance seeks to implement requires that no significant adverse impact to the chemical, physical, hydrologic, or biological components of aquatic ecosystems shall be allowed. The WVDEP Narrative WQS Implementation Guidance sets forth detailed, lengthy procedures for determining whether a proposed NPDES discharge has a reasonable potential to cause a violation of this narrative standard, and if so, the permit conditions that should be imposed to assure that no such violations occur. The interpretation and application of this guidance in the future may, in turn, be affected by the EPA s activities mentioned above.

Although we have no immediate need for new 404 Permits to continue our current U.S. mining operations in the short term, some of our future mine plans (including the continuation of existing mines) will require the issuance of such permits to proceed. Whether the regulatory environment will be such that 404 Permits for those projects may be expected to be issued in a timely manner, in the form required for such plans to be implemented, is difficult to predict. Our inability to obtain such permits or any unexpected delay or additional costs incurred in connection with securing such permits could have a material adverse effect on the financial performance of our U.S. coal mining operations.

*The cost and availability of reliable transportation could negatively impact our U.S. coal mining operations.*

The availability and cost of reliable transportation for our U.S. coal is a critical factor in a customer s purchasing decision. Increases in transportation costs could make coal a less competitive source of energy or could make our coal production less competitive than coal produced from other sources.

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Our U.S. mines depend on a single railroad carrier, Norfolk Southern. We also have the ability to export coal through the port of New Orleans on the Gulf of Mexico by trucking coal to a river terminal followed by barging via the Mississippi River.

Disruptions to railway transport caused by weather-related problems, flooding, drought, accidents, mechanical difficulties, strikes, lockouts, bottlenecks, and other events could temporarily impair our ability to supply coal to our customers. For example, the snowfall in the winter of 2009-2010, which was the heaviest in the last decade, caused delays in our supplies of coal to customers. Furthermore, improvement works carried on at the Norfolk and Southern Hartland Corridor Tunnel caused delays in railcar deliveries to our mines for up to four days. In addition, after Norfolk Southern made certain cuts in equipment and personnel during the economic slowdown in 2009, it is currently facing difficulties in building up its transportation capacity to meet the increasing demand for railcars.

Similar risks exist in the logistical chain to New Orleans. The 2011 record-breaking flooding of the Mississippi River and its tributaries caused weeks of delay resulting in force majeure conditions. Although we did not miss any shipments, our customers have had to reschedule vessels affecting delivery timelines and inventory levels. In addition, we face labor and fuel cost issues which can adversely affect the truck-haul element of this logistical chain. Transportation providers may face increased regulation or other difficulties in the future that may impair our ability to supply coal to our customers at a competitive cost. If there are disruptions of the transportation services and we are unable to make alternative arrangements to ship our coal, the financial performance of our U.S. coal mining operations could be materially adversely affected.

*Defects in title or loss of any leasehold interests in our U.S. properties could limit our ability to conduct mining operations or result in significant cost increases.*

We conduct a significant part of our mining operations in the United States on properties that we lease. A title defect or the loss of any lease could adversely affect our ability to mine the associated reserves. In addition, from time to time the rights of third parties for competing uses of adjacent, overlying, or underlying lands such as for oil and gas activity, coalbed methane, production, pipelines, roads, easements and public facilities may affect our ability to operate as planned if our title is not superior or alternative arrangements cannot be negotiated. Title to much of our leased properties and fee mineral rights is not usually verified until we make a commitment to develop a property, which may not occur until after we have obtained necessary permits and completed exploration of the property. Our right to mine some of our reserves may be adversely affected if defects in title or boundaries exist or competing interests cannot be resolved. In order to obtain leases or other rights to conduct our mining operations on property where these defects exist, we may incur unexpected costs or be compelled to leave un-mined the affected reserves, resulting in a material adverse effect on the financial performance of our U.S. coal mining operations.

*A shortage of skilled labor in the mining industry could negatively impact the profitability of our U.S. coal mining operations.*

Efficient coal mining using modern techniques and equipment requires skilled workers. Ideally, we seek to hire individuals with sufficient level of experience to ensure a minimum level of operational efficiency. In recent years, the U.S. coal mining industry has faced a shortage of skilled workers, thus increasing costs and decreasing productivity. In particular, we are facing difficulties in recruiting skilled workers at our underground operations. Furthermore, the competition from neighboring mining companies for attracting skilled workers is significant. In the event the shortage of experienced labor continues or worsens, it could have an adverse impact on our labor productivity and costs and our ability to expand production in the event there is an increase in the demand for our coal.

*The Bluestone companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters and face a highly litigious environment.*

Like other mining businesses in the United States, our Bluestone companies are subject to a wide range of rules and regulations, including those governing water discharges, air emissions, the management, treatment,

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storage, disposal and transportation of hazardous materials and waste, protection of plants, wildlife and other natural resources, worker health and safety, reclamation and restoration of properties after mining activities cease, surface subsidence from underground mining, blasting operations, noise, the effects of mining on surface water and groundwater quality and availability, and reporting and recordkeeping. Violations of these requirements can result in fines, penalties, required facility upgrades or operational changes, suspension or revocation of permits and, in severe cases, temporary or permanent shut-down of our mines. We incur substantial costs in order to comply with governmental regulations that apply to our operations in the United States.

We could also become subject to investigation or cleanup obligations, or related third-party personal injury or property damage claims, in connection with on-site or off-site contamination issues or other non-compliance with U.S. regulatory requirements. In particular, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act ( **CERCLA** or commonly known as the **Superfund law** ) and analogous state laws, current and former property owners and operators, as well as hazardous waste generators, arrangers and transporters, can be held liable for investigation and cleanup costs at properties where there has been a release or threatened release of hazardous substances. Such laws can also require so-called potentially responsible parties to fund the restoration of damaged natural resources or agree to restrictions on future uses of impacted properties.

Liability under such laws can be strict, joint, several and retroactive. Accordingly, we could theoretically incur material liability (whether as a result of government enforcement, private contribution claims or private personal injury or property damage claims) for known or unknown liabilities at (or caused by migrations from or hazardous waste shipped from) any of our current or former facilities or properties, including those owned or operated by our predecessors or third parties or at third party disposal sites. In addition, lawsuits by employees, customers, suppliers and other private parties may be costly to defend and could lead to judgments for damages.

Currently, four of the 45 NPDES permits for our Bluestone operations are pending renewal with the EPA. These permits have been administratively extended for a period of six months and currently Bluestone is not prevented from mining coal. However, should these permits remain unrenewed after the six-month period expires in 2013, there is a significant risk that such permits will be withdrawn and production at some of the Bluestone operations may be suspended for an indefinite period of time.

*Changes in U.S. regulations and the passage of new legislation in the United States could materially adversely affect the Bluestone companies operations, increase our costs or limit our ability to produce and sell coal in the United States.*

New legislation, regulations and rules adopted or implemented in the future (or changes in interpretations of existing laws and regulations) may materially adversely affect our U.S. operations. Some U.S. commentators expect that the current U.S. administration could implement policies or sponsor legislation that will make the production and/or consumption of coal in the United States more expensive and create additional regulatory burdens, and it remains unclear whether this will affect the business and prospects of the Bluestone companies. In particular, future regulation of greenhouse gases in the United States could occur pursuant to future treaty obligations, statutory or regulatory changes under the U.S. Clean Air Act, federal or state adoption of a greenhouse gas regulatory scheme, or otherwise. In May 2010, the EPA finalized its Greenhouse Gas Tailoring Rule establishing criteria that define when permits under the New Source Review Prevention of Significant Deterioration and Title V operating permit programs are required for new and existing industrial facilities. This final rule tailors the requirements of the Clean Air Act permitting programs to phase in various greenhouse gas related requirements over time. The EPA has also announced plans to establish greenhouse gas standards under the Clean Air Act for fossil fuel fired power plants. In addition, we are required to report to the EPA our annual greenhouse gas emissions from certain of our operations. Many states and regions have undertaken greenhouse gas initiatives, including cap-and-trade programs.

These and other potential U.S. federal, state and regional climate change rules will likely require additional controls on coal-fueled power plants, industrial boilers and manufacturing operations, and may even cause some

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users of coal to switch from coal to a lower carbon fuel. There can be no assurance at this time that a carbon dioxide cap-and-trade program, a carbon tax or other regulatory regime, if implemented, will not affect the future market for coal in the regions where we operate and reduce the demand for coal.

Furthermore, surface and underground mining are subject to increasing regulation, including pursuant to the federal MINER Act, blast survey and monitoring restrictions, and requirements by the Corps and the U.S. Department of Interior s Office of Surface Mining, which may require us to incur additional costs. Recent underground mining accidents in the United States, culminating in a mine explosion in West Virginia that killed 29 miners in April 2010, have resulted in calls by government officials for the U.S. Mine Safety and Health Administration to intensify its oversight and enforcement of mine safety, and to impose increasingly punitive measures against mining companies that violate mine safety laws, including, where necessary, closure of hazardous mines. For example, federal and West Virginia authorities have generally been conducting enhanced inspections of coal mines for various safety concerns. Increased oversight, enforcement and regulation of mine safety could cause us to incur increased compliance costs, some of which could be material.

*We must obtain, maintain and comply with numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain, renew or comply with necessary permits and approvals could negatively impact our business.*

Numerous governmental permits and approvals are required for our U.S. coal mining operations and obtaining these permits can take a substantial amount of time. For example, it typically takes up to 18 months to obtain all required permits for new underground operations and up to four years for new surface mine operations. Many of our permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than existing permits. In addition, violations of our permits may occur from time to time, permits we need may not be issued or, if issued, may not be issued in a timely fashion.

*We may be subject to significant mine reclamation and closure obligations with respect to our U.S. coal mining operations.*

The U.S. Surface Mining Control and Reclamation Act ( **SMCRA** ) and counterpart state rules establish operational, reclamation and closure standards for all aspects of surface mining in the United States, as well as many aspects of underground mining. Our estimated reclamation and mine closure obligations could change significantly if actual amounts (which are dependent on a number of variables, including estimated future retirement costs, estimated proven reserves and assumptions involving profit margins, inflation rates and interest rates) differ significantly from our assumptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

*Extensive environmental regulation in the United States, including the Clean Air Act and similar state and local laws, affect our U.S. customers and could reduce the demand for coal as a fuel source and cause our sales to decline.*

The U.S. Clean Air Act and similar state and local laws extensively regulate the amount of sulfur dioxide, particulate matter, nitrogen oxides, mercury and other compounds that are emitted into the air from power plants and other sources. Stricter regulation of such emissions could increase the cost of using coal in the United States, reducing demand and make it a less attractive fuel alternative for future planning.

For example, in order to meet the Clean Air Act limits on sulfur dioxide emissions from power plants, coal users may need to install scrubbers, use sulfur dioxide emission allowances (some of which they may purchase), blend high sulfur coal with low sulfur coal or switch to other fuels. Furthermore, some of the EPA s initiatives to reduce sulfur dioxide, nitrous oxide and mercury emissions have been the subject of litigation in recent years, and there is continued uncertainty over lawsuits by environmental groups and other public resistance during the initial permitting process for new coal-fired power plants, which has had a chilling effect on the construction of such plants. This increasing focus on power plant emissions could adversely impact the demand for coal.

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To the extent compliance with these laws and regulations and any new or proposed requirements affect our customers in the United States, an important market for the Bluestone companies, this could materially adversely affect our business, financial condition, results of operations and prospects.

*Mining in the Northern and Central Appalachian region of the United States is more complex and involves more regulatory constraints than in other U.S. geographic areas.*

The geological characteristics of Northern and Central Appalachian coal reserves, such as depth of overburden and coal seam thickness, make them complex and costly to mine. As such mines become depleted, 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. In addition, as compared to mines in other areas such as in the western United States, permitting, licensing and other environmental and regulatory requirements are more costly and time consuming to satisfy. These factors could materially adversely affect the mining operations and cost structures of, and customers ability to use coal produced by, operators in Northern and Central Appalachia, including our Bluestone companies.

**Item 4.** ***Information on the Company***

**Overview**

We are a vertically integrated group with revenues of $11.3 billion in 2012, $12.5 billion in 2011 and $9.7 billion in 2010, with operations organized into four industrial segments: mining, steel, ferroalloys and power, each of which has a managing 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 mining products, manufactured steel goods and ferroalloy 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 freight railcar and locomotives pool, and, in December 2011, we finished laying track for the rail line to our Elga coal deposit in the Sakha Republic, providing it with rail access.

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 68 regional offices as of December 31, 2012.

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 and steam coal, as well as iron ore, coke and limestone.

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

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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 our subsidiary, Yakutugol, operates coal mines located in the Sakha Republic in Eastern Siberia, consisting of three 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. Our Bluestone subsidiaries operate three mining complexes in West Virginia, United States, consisting of open pit and underground mines. 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, Bluestone, 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, carbon and special steel long products, carbon and stainless flat 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 mills in the southern Ural Mountains, a wire products plant in northwestern Russia near the border with Finland. Outside of Russia, our steel production facilities are in the United Kingdom, Ukraine and Lithuania.

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, Europe and Turkey.

***Ferroalloys Segment***

Our ferroalloys segment produces and sells low-ferrous ferronickel, ferrochrome and ferrosilicon. We have owned the Southern Urals Nickel Plant (a nickel mining and production operation) since 2001. We acquired Bratsk Ferroalloy Plant (a ferrosilicon producer) in 2007. In April 2008, we acquired a 99.3% stake in Oriel Resources and subsequently increased our stake to 100%. The assets acquired with Oriel Resources included Tikhvin Ferroalloy Plant, a ferrochrome producer located near St. Petersburg, as well as the Voskhod chrome and Shevchenko nickel projects in Kazakhstan.

In October 2008, we completed the consolidation of our ferroalloy assets in Oriel Resources. Oriel Resources now owns a 100% interest in Bratsk Ferroalloy Plant, an 84.06% interest in Southern Urals Nickel Plant and a 100% interest in Tikhvin Ferroalloy Plant and licenses for the Voskhod chrome and the Shevchenko nickel deposits in Kazakhstan. Mechel Ferroalloys Management, a wholly-owned subsidiary of Oriel Resources, acts as the sole executive body of our subsidiaries in the ferroalloys segment.

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***Power Segment***

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

According to AME Mineral Economics (Hong Kong) Ltd. ( **AME** ), we were the tenth largest metallurgical coal exporter in the world in 2012.

In 2012, we were the largest coking coal producer in Russia with a 20.0% market share in the coking coal market in Russia by production 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 2012, our export sales of coking coal 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 full-range offering of high-quality coal for blast furnace steel producers.*

Our total coal reserves, accounted as per the SEC Industry Guide 7, amounted to 3,215.2 million tonnes as of December 31, 2012.

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 Ukraine, while our Bluestone coal assets produce low, medium and high-volatile hard coking coal used predominantly by customers in the United States, Canada, Europe, Asia-Pacific region and South America. The ability to serve our customers throughout the world with a broad range of metallurgical coal grades gives us a competitive advantage in winning new sales markets and establishing long-term relationships with the customers.

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

According to Metal Expert, a source for global and steel and raw materials market news and analytics, in 2012, we were Russia s second largest producer of long steel products (excluding square billets) by production volume, second largest producer of reinforcement bars (rebar), largest producer of wire rod and largest producer of wire products. 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 2012 was approximately 21.2%, according to Metal Expert. According to Metal Expert and Chermet, a Russian ferrous metals industry association ( **Chermet** ), we are Russia s second largest producer of special steel by production volume, accounting for 20.0% of Russia s total special steel output in 2012. 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 Prommetiz, we are Russia s largest producer of wire products by production volume, accounting for 36.1% of Russia s total wire products output in 2012. Our product range in wire products is broader than other Russian producers and allows to cover all needs of customers, giving us an added advantage in our markets.

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***High degree of vertical integration***

*Our steel segment is able to source almost all 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 ferroalloys 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 2012, we were fully self-sufficient with respect to coke and 93% self-sufficient with respect to ferroalloys. In 2012, we internally sourced 83% of the nickel, 100% of the ferrosilicon and 83% of the ferrochrome requirements of our steel segment. In 2012, we satisfied approximately 21% of our electricity needs internally. In 2012, we were 8% self-sufficient with respect to iron ore concentrate due to redirection of our iron ore concentrate supplies for export. 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 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, ferroalloy 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, ferroalloys and power segments will tend to increase. Similarly, while decreases in commodity prices tend to reduce revenues in mining and ferroalloys segments, 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 or raw materials purchased from third parties, which allows us 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 and a river port, as well as a transport operations company, Mecheltrans, which manages the rail transportation of our products and carries out the overall coordination of our sea and rail transportation logistics for our products. Mecheltrans not only transports our products but also provides 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, allows us easy access to the Asia-Pacific seaborne markets and provides a delivery terminal for the coal mined by our subsidiary Yakutugol in Yakutia. We are in the process of upgrading Port Posiet, which upon completion in 2014 will enable us to expand the cargo-handling capacity of the port up to 9.0 million tonnes per year and to accommodate Panamax ships, which will increase its attractiveness and utility as an export port for large volumes of coal. 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 fast-growing 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, 2012, our subsidiary Mecheltrans owned and leased 8,454 rail freight cars that we use to ship our products.

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On June 23, 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 adjacent deposits.

***One of the lowest-cost metallurgical coal producers***

According to AME, our Russian metallurgical coal operations are in the first and second quartiles of the global cash cost curve (FOB basis). Approximately 90% of our coking coal production is mined from open pit mines, which we believe is one of the highest rates among our major 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 both Atlantic and Asia-Pacific seaborne markets.*

Eastern Siberian coal mines of Yakutugol and its 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 is 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 key fast-growing 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 positioned than many of our international competitors to secure future production growth.

Our coal mining operations carried out through the Bluestone companies are situated in West Virginia, just 400 miles from the deep-water port in Norfolk, Virginia and in relative proximity to Baltimore and New Orleans. Historically, the Bluestone companies key markets have been in North America, and in recent years, they have expanded their sales to Europe and Asia. Due to certain restrictions under the Clean Water Act regulation, we plan to maintain current production volumes and to focus on cost control. For more information on the Clean Water Act see U.S. Environmental, Health, Safety and Related Regulation.

*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 all our key special steel and rolled long products lines. 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 where Russia s construction industry is most active. 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 2012 was approximately 21.2%.

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***Established distribution and sales platform***

We currently have in total 172 storage sites and service centers in Russia, the CIS, Europe and Turkey that provide services to more than 26,000 customers. Our Mechel Service Global distribution platform in Russia has 83 storage sites in 68 cities throughout Russia to serve a broad range of end customers. Eighteen of these facilities provide a number of value-added services to our customers, including bending and cutting of rebars, cutting and uncoiling of steel ropes, production of wire mesh and cutting of sheet steel, which allows us to improve service quality for small companies and individuals, as well as to obtain additional margins. By using our own production equipment we increased the share of processed products to 34% of the total sales of European companies of Mechel Service Global in 2012.

Our direct access to end customers through the provision of value-added services allows us to obtain real-time market intelligence, improve production planning at our steel facilities, sell more value-added products by addressing specific customer needs and further diversify our customer base.

Mechel Service Global sales accounted for 52.9% of our steel segment sales and 31.9% of our total sales in 2012. More than 91% of Mechel Service Global sales were sold domestically. Sales to companies within our group accounted for 2.5% of total sales of Mechel Service Global (including intra-group sales) in 2012.

In 2013, following the refocusing of our strategy in the steel segment on the domestic market and the gradual withdrawal of production from Europe we plan to optimize the distribution network of Mechel Service Global in order to preserve the link between production and sales. The optimization will entail a sale or closure of some of our European service centers and warehouses, keeping only those which offer a direct synergy between our Russian-based manufacturing and our consumer markets in Europe, largely related to the special steel sales. The distribution platform in Russia and the CIS will also undergo a restructuring, though at a lesser scale.

We also have a non-retail sales and distribution network represented by our Swiss subsidiaries Mechel Trading and Mechel Carbon with representative offices in various countries. In September 2011, Mechel Carbon and Somani Group established Mechel Somani Carbon Private Limited, a joint venture engaged in distribution of metallurgical coals on the Indian market. In January 2012, we established Mechel Carbon Singapore to cover marketing and sales activities in the fast-growing Asia-Pacific market. This network facilitated sales constituting 31.0% of our total sales in 2012, reducing our reliance on the Russian market in the event that it experiences another downturn.

***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 metals and mining group. Mr. Zyuzin has over 26 years of experience in the coal mining industry and has a doctorate in coal mining technical sciences. Our divisional management also has long-tenured experience in the mining and metals industry. See Directors and Executive Officers.

**Business Strategy**

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

***Continue to grow the value of our business 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

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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 expand and 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. Development of our two seaports, Port Posiet and Port Temryuk, will be a key for uninterrupted shipments of our coal and steel products to our main markets, predominantly sales of coal products to our customers in South-East Asia. In order to reflect growing production of export-oriented coal in our mining segment, we contemplate further acquisitions of port capacity on our main export routes.

*We will leverage synergies among our core businesses.*

In addition to synergies derived from our status as an integrated group, we believe that additional cost savings and opportunities will arise as we benefit from optimization of our business combination in line with the changing markets, including economies of scale, continuing integration of recent acquisitions and targeted disposal of the assets which prevent from further efficient improvement of our business. We regularly evaluate the manner in which our subsidiaries source their raw materials needs and transfer products within our group in order to operate in the most efficient way, and we expect to identify and take advantage of further synergies among our core businesses.

*We intend to concentrate on realizing the maximum potential from our existing assets, while also considering new acquisitions and 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, including recent acquisitions. 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.

We will, however, continue to monitor global mining and steel markets for new opportunities, including new subsoil licenses in Russia and abroad, focusing on maintaining and expanding our presence in regions with low costs and high economic growth potential.

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 the largest in Russia. Furthermore, we have evaluated our other assets for potential divestment and decided to dispose our entire ferroalloys segment, certain power assets and certain steel assets not integrated with our mining segment and less efficient through their high cost base and exposure to weaker end markets. In February 2013, we disposed our steel plants in Romania that significantly reduced our exposure to weakening of the demand in the European market. We expect that the disposal will have a positive effect on the profitability of our steel segment in the immediate future. In addition, we signed an agreement to sell Toplofikatsia Rousse, a power plant in Bulgaria, with the transaction to close in May 2013. We expect that the disposal will have a positive effect on the profitability of our power segment.

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***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 21.3 million tonnes in 2012 to 27.6 million tonnes in 2015. We intend to develop coking coal reserves of Yakutugol. Yakutugol, which has four producing mines, holds mining rights to reserves 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 and tenders 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 fast-growing 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. Following this strategy, in 2011 we established a joint venture in India engaged in distribution of metallurgical coals on the Indian market. In addition, in 2012 we established Mechel Carbon Singapore to promote more effectively our products in the Asia-Pacific region.

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

While our existing iron ore operations will maintain our annual iron ore concentrate production at the level of approximately five million tonnes, we plan to increase it in the future following the development of the Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit. Growth of production from these operations will increase our sales of iron ore products to third parties, including exports. Our ability to offer iron ore feed together with metallurgical coal products to our customers will further enhance our competitive strength in our key markets.

***Strengthening our position as a major player on our core steel products markets***

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

As one of the leaders in long steel production in Russia and the CIS we will continue to maintain our exposure to the construction sector. While we expect to benefit from growing demand for our products fuelled by new infrastructure projects in these markets, we will continue to selectively invest in technology and equipment modernization, optimizing our product catalog and cutting production costs with a view to increase steel margins. In continuation of this strategy in 2013 we aim to complete construction of the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant, which will widen our offer book to high value-added products such as structural shapes and rails. That will significantly improve our competitive advantage as a full product range supplier to the construction sector and as an important supplier to the Russian Railways. See Capital Investment Program.

*We intend to increase our group s output and improve 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. In 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

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main wire products production facility. Investments made in Beloretsk Metallurgical Plant in the last few years have elevated our group as Russia s largest wire products producer. The recent modernization of Izhstal will further improve the quality of our high value-added products and will help us to capitalize on our position as a supplier not only in Russia but in other markets.

*Capitalize on our domestic and European distribution capabilities.*

Our continued focus on the Russian domestic market is a key element of our strategy. We are particularly well-positioned to supply construction and infrastructure projects in Russia from our Chelyabinsk Metallurgical Plant located in the southern Urals and our Beloretsk Metallurgical Plant located in the Republic of Bashkortostan. The geographical reach of our Mechel Service Global production and logistics facilities and sales network provides us with a strong platform for our sales growth. Mechel Service, a Russian subsidiary of Mechel Service Global, has 83 storage sites in 68 cities throughout Russia to serve our end customers. During the past few years, Mechel Service Global s European distribution network generally developed through opening of additional branches and sales offices on the basis of existing companies. Previously opened companies reached the planned sales volumes of metal products and strengthened their presence in regional markets. In 2012, we limited the further expansion of our distribution network and focused on improving the efficiency of existing offices and optimization of the sales structure. Due to the gradual withdrawal of our steel production from Europe we will further optimize the European part of our distribution network including sale or closure of certain service centers and warehouses, which do not offer immediate synergy with our production. Simultaneously we will continue to improve the quality of services to our customers, as well as inventory and receivables management, which will allow us to maintain stable sales of our products, to minimize potential losses and to improve our cash flow in the current economic slowdown.

**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 a large, integrated mining, steel, ferroalloys and power group, comprising coal, iron ore, coke, steel, nickel, ferrochrome and ferrosilicon production, with operations and assets in Russia, Lithuania, Ukraine, Kazakhstan, the United Kingdom and the United States. With each of our acquisitions, we implement our operational and management practices. We also devote all the management, technological and logistical resources necessary to integrate new acquisitions into all aspects of our business, including the supply of raw materials and steel, production methodologies and sales and distribution.

After the restructuring of our assets into separate mining, steel, ferroalloys and power segments, we have been implementing operational independence of our segments to be followed by their legal and financial separation from each other. For example, during 2008-2011 we consolidated our major mining assets under Mechel Mining, which has now its separate management and corporate governance.

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. See Risk Factors Risks Relating to Our Business and Industry Changes in our subsidiaries management and corporate governance might affect our integrated business model.

**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

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operations consist of Southern Kuzbass Coal Company, Yakutugol and Bluestone, which together produced 18.0 million tonnes of raw coking coal, 7.8 million tonnes of raw steam coal, 2.0 million tonnes of raw anthracite and 2.6 million tonnes of PCI in 2012. Our coke operations consist of Moscow Coke and Gas Plant and Mechel Coke, which together produced 3.6 million tonnes of coke in 2012. Our iron ore operations consist of Korshunov Mining Plant which produced 12.6 million tonnes of iron ore and 4.4 million tonnes of iron ore concentrate in 2012. Our limestone operations consist of Pugachevsky Open Pit which produced 2.0 million tonnes of limestone in 2012.

***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. Our West Virginia-based Bluestone operations produce a range of metallurgical coals including low, medium and high-volatile hard coking coal. The Bluestone mines blend low, medium and high-volatile hard coking coal in different proportions to meet the requirements of their customers. The final products are blended at the port, as they are loaded on to the customer s vessels.

*Steam coal.* We produce steam coal products for use in the power generation industry. Southern Kuzbass Coal Company, Yakutugol and our Bluestone operations produce high-energy steam coal as part of their product mix.

*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%. In 2011 and 2012, Yakutugol obtained subsoil licenses for three iron ore deposits located in Yakutia. Our Yakutugol 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 and U.S. 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

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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. Coal extracted at each of the Bluestone mining complexes is processed at the on-site coal preparation plants. Coal mined in Central Appalachia typically contains impurities such as rock, shale and clay and occurs in a wide range of particle sizes. The coal preparation plants treat the coal to ensure a consistent quality and to enhance its suitability for particular end users. Steam coal is not processed and is sold as is, as well as some high-quality coking coal which does not need washing.

*Iron ore.* At our Korshunov Mining Plant, ore is mined using conventional open pit mining method. Following a drilling and blasting stage, ore is hauled by rail hopper cars to the concentrator plant. At the concentrator plant, the ore is crushed and ground to a fine particle size, then separated into an iron ore concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded to a concentrate that contains about 62% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the washing plant. The concentrate is sent to disk vacuum filters which remove the water from the concentrate to reduce the moisture level, enabling shipment to customers by rail during warmer months, but in colder periods the concentrate must be dried further to prevent freezing in the rail cars. Korshunov Mining Plant operates its own drying facility with a dry concentrate production capacity of up to 16,000 tonnes per day. In 2011, Yakutugol obtained the subsoil license for the Pionerskoye iron ore deposit in Yakutia. The deposit has iron ore with high iron content, which we anticipate will allow us to produce iron ore concentrate at the early stages of development of the mine without the need to use complex beneficiation technologies. In 2012, Yakutugol obtained subsoil licenses for 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 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 and the United States:

| Subsidiary (Location) | Surface | Underground |
|---|---|---|
| Yakutugol (Sakha Republic, Russia) | Neryungrinsky Open Pit | Dzhebariki-Khaya Underground |
| | Kangalassky Open Pit | |
| | Elga Open Pit | |
| Southern Kuzbass Coal Company (Kuzbass, Russia) | Sibirginsky Open Pit | V.I. Lenina Underground |
| | Tomusinsky Open Pit | Sibirginskaya Underground |
| | Olzherassky Open Pit | |
| | Krasnogorsky Open Pit | Olzherasskaya-Novaya Underground |
| Bluestone (West Virginia, United States) | Job 30 | Mine 58 |
| | Job 38 | Mine 65 |
| | Pocahontas No. 11 Contour and Auger No. 2 | Ben s Creek 1 (Frontier) |

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

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

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Tonnes | % of Production | Tonnes | % of Production | Tonnes | % of Production |
| | | | (In millions of tonnes)[1] | | | |
| **Coking Coal** | | | | | | |
| Yakutugol | 9.0 | | 6.3 | | 7.4 | |
| Southern Kuzbass Coal Company | 5.7 | | 6.8 | | 7.1 | |
| Bluestone | 3.2 | | 4.9 | | 4.1 | |
| Total Coking Coal | 17.9 | 64.4% | 18.0 | 65.2% | 18.6 | 66.2% |
| **Steam Coal** | | | | | | |
| Yakutugol | 1.0 | | 1.7 | | 1.9 | |
| Southern Kuzbass Coal Company | 6.5 | | 5.1 | | 5.0 | |
| Bluestone | 0.4 | | 0.5 | | 0.7 | |
| Total Steam Coal | 7.9 | 28.4% | 7.3 | 26.5% | 7.6 | 27.0% |
| **Anthracite** | | | | | | |
| Yakutugol | | | | | | |
| Southern Kuzbass Coal Company | 2.0 | | 2.3 | | 1.9 | |
| Bluestone | | | | | | |
| Total Anthracite | 2.0 | 7.2% | 2.3 | 8.3% | 1.9 | 6.8% |
| **Total Coal** | 27.8 | 100% | 27.6 | 100% | 28.1 | 100% |

(1) Volumes are reported on a wet basis.

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.

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

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Tonnes | % of Production | Tonnes | % of Production | Tonnes | % of Production |
| | (In millions of tonnes) | | | | | |
| **Coking Coal** | | | | | | |
| Yakutugol | 5.4 | 26% | 4.7 | 19% | 4.0 | 19% |
| Southern Kuzbass Coal Company | 4.1 | 19% | 5.1 | 21% | 5.1 | 24% |
| Bluestone | 1.5 | 7% | 2.8 | 11% | 2.4 | 11% |
| Total Coking Coal | 11.0 | 52% | 12.6 | 51% | 11.5 | 54% |
| **PCI** | | | | | | |
| Yakutugol | | | | | | |
| Southern Kuzbass Coal Company | 2.6 | 12% | 2.1 | 9% | 0.9 | 4% |
| Bluestone | | | | | | |
| Total PCI | 2.6 | 12% | 2.1 | 9% | 0.9 | 4% |
| **Anthracite** | | | | | | |
| Yakutugol | | | | | | |
| Southern Kuzbass Coal Company | 1.1 | 5% | 1.1 | 5% | 1.1 | 5% |
| Bluestone | | | | | | |
| Total Anthracite | 1.1 | 5% | 1.1 | 5% | 1.1 | 5% |
| **Steam Coal** | | | | | | |
| Yakutugol | 3.6 | 17% | 3.8 | 15% | 3.1 | 14% |
| Southern Kuzbass Coal Company | 2.6 | 12% | 4.5 | 18% | 4.3 | 20% |
| Bluestone | 0.4 | 2% | 0.5 | 2% | 0.7 | 3% |
| Total Steam Coal | 6.6 | 31% | 8.8 | 35% | 8.1 | 37% |
| **Total Coal** | 21.3 | 100% | 24.6 | 100% | 21.6 | 100% |

*Yakutugol mines*

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 three open pit mines and one underground mine: Neryungrinsky Open Pit, Elga Open Pit, Kangalassky Open Pit and Dzhebariki-Khaya Underground. Neryungrinsky Open Pit and Elga Open Pit are 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.

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The table below sets forth certain information regarding the subsoil licenses for our coal mines in the Sakha Republic, all of which are held by our subsidiary Yakutugol.

| 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 | 2029 | Dec 2014 | In production | 1979 | Ownership |
| Kangalassky Open Pit | 15017 (Kangalassk) | 7.7 | Open pit | 2450 | Dec 2014 | In production | 1962 | Ownership |
| Elga Open Pit | 14425 (Elga) | 144.1 | Open pit | 2102 | May 2020 | In production | 2011 | Lease |
| Dzhebariki-Khaya Underground | 15061 (Dzhebariki-Khaya) | 14.8 | Underground | 2105 | Dec 2013 | 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 in the Asia-Pacific region, primarily to Japan, South Korea and China, and steam coal which is sold domestically. 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 power 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 through the Aldan River.

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

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| Mine | Tonnes | % of Total Production | Tonnes | % of Total Production | Tonnes | % of Total Production |
| | | | (In millions of tonnes)[1] | | | |
| **Coking Coal** | | | | | | |
| Neryungrinsky Open Pit | 8.8 | | 6.3 | | 7.4 | |
| Elga Open Pit | 0.2 | | | | | |
| Total Coking Coal | 9.0 | 90.0% | 6.3 | 78.8% | 7.4 | 80.4% |
| **Steam Coal** | | | | | | |
| Neryungrinsky Open Pit | 0.4 | | 1.1 | | 1.2 | |
| Dzhebariki-Khaya Underground | 0.4 | | 0.4 | | 0.5 | |
| Elga Open Pit | 0.1 | | 0.1 | | | |
| Kangalassky Open Pit | 0.1 | | 0.1 | | 0.1 | |
| Total Steam Coal | 1.0 | 10.0% | 1.7 | 21.2% | 1.8 | 19.6% |
| **Total Coal** | 10.0 | 100% | 8.0 | 100% | 9.2 | 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 | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| | | (In thousands of tonnes) | | |
| Coking coal | Asia | 4,091.3 | 3,315.2 | 3,416.1 |
| | CIS | 811.4 | 1,230.0 | 428.1 |
| | Middle East[1] | 0.1 | 0.0 | 0.0 |
| | Europe | 0.0 | 4.0 | 0.0 |
| | Russia | 0.0 | 0.0 | 26.9 |
| Total | | 4,902.8 | 4,549.2 | 3,871.1 |
| Steam coal | Russia | 1,087.3 | 1,875.9 | 1,471.6 |
| | Asia | 0.0 | 131.9 | 230.1 |
| | Europe | 0.0 | 0.0 | 15.1 |
| Total | | 1,087.3 | 2,007.8 | 1,716.8 |
| Middlings | Russia | 2,315.9 | 1,848.0 | 1,866.0 |
| | Asia | 128,8 | 72.4 | 0.0 |
| Total | | 2,444.7 | 1,920.4 | 1,866.0 |
| **Total** | | 8,434.8 | 8,477.4 | 7,453.9 |

(1) Includes Turkey only.

The Elga coal deposit is located in the Neryungrinsk municipal district in the southeast of Yakutia near the Amur region (which borders China) and Khabarovsk Krai (which has a long coastline on the Sea of Okhotsk, an arm of the Pacific Ocean). 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. The Elga coal deposit lies in the South-Yakutsky basin of the Toko Coal-Bearing region. This region was first discovered and explored in 1952 with the first geological surveys being conducted in 1954 through 1956 followed by prospecting surveys in 1961 through 1962. Trenching along the outcrops was conducted in 1980 through 1982 followed by exploration drilling that was completed in 1998. Since 1998, there have been several studies on the Elga coal deposit, including geology and resources, mine planning, rail line construction and feasibility studies.

In 2009, our subsidiary Mechel Engineering worked out the general scheme of the Elga coal complex development, which includes a basic technical layout of the main facilities (housing complex, railway station, washing plant) and sets the order of priority of construction and operation of the open pit mine. In 2009, the design institute NTC Geotechnology OOO developed a plan of initial mine block development for the three-year period from 2010 through 2012. The plan was approved by the Central Commission for Development of Solid Mineral Deposits of the Federal Agency for Subsoil Use and the Russian Main Department of State Expertise. In 2011, Mechel Engineering prepared the project documentation for the first stage of the development of the Elga coal complex with an annual production capacity of nine million tonnes of raw coal by 2015. The project documentation was approved by the Russian Main Department of State Expertise and the Central Commission for Development of Solid Mineral Deposits of the Federal Agency for Subsoil Use. In August 2011, we concluded a contract for engineering and procurement of a seasonal washing plant with a seasonal production capacity of 2.0 million tonnes. In September 2012, the construction of the seasonal washing plant was completed. In November 2011, we concluded a contract for engineering, procurement and construction of a housing complex for 3,000 miners and workers who will operate the Elga coal complex.

In December 2011, we finished laying track for the rail line to the Elga deposit in accordance with the terms of the subsoil 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 deposit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network,

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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.

Overburden removal at the Elga deposit commenced in November 2010. Coal mining at Elga Open Pit commenced in August 2011. The coal is transported on our private rail line to the Ulak railway station at the Baikal-Amur Mainline and then over the Baikal-Amur Mainline to end customers.

Elga Open Pit produces two types of coal: high-quality hard coking coal (high-volatile) and steam coal. It will also produce middlings (by-product of the coking coal washing process), which will be sold as steam coal, when the seasonal washing plant begins operations.

Currently, Elga has an electricity substation with six diesel power generators with a total installed capacity of 2.8 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 December 2013.

According to the conditions of the subsoil license for the Elga coal deposit, as amended in May 2010, we are required to meet the following construction deadlines and operational milestones: (1) build a rail line from the Ulak station on the Baikal-Amur Mainline up to the coal deposit by December 31, 2011; (2) complete construction of the first phase of the Elga coal complex by December 31, 2013; (3) reach annual coal production capacity of 9.0 million tonnes by July 1, 2013; (4) reach annual coal production capacity of 18.0 million tonnes by July 1, 2018; and (5) commission a coal washing plant with an annual capacity of 9.0 million tonnes by December 31, 2015.

In view of our commitments under the subsoil license, we have proactively applied for and obtained amendments to certain terms of the subsoil license in order to stay in compliance with the terms of the license. In particular, on May 14, 2010, the Ministry of Natural Resources and Ecology extended certain construction deadlines as follows: (1) completion of the construction of the rail line was postponed from September 30, 2010 to December 31, 2011, and (2) completion of the construction of the first phase of the Elga coal complex was postponed from October 30, 2010 to December 31, 2013. The construction of the rail line had already started some time before we acquired the Elga coal deposit in October 2007. Following the acquisition, we continued the construction, but it was delayed during the period from September 2008 to August 2009 because of limited availability of financing during the global financial crisis. In December 2011, we finished laying track for the rail line and are now able to transport coal along it in accordance with the license requirements. We own and operate the rail line as a private railway. Under Russian law, however, we have to share excess capacity, if any, with third parties.

If the current construction deadlines and operational milestones are not met, our subsoil license for the Elga coal deposit may be suspended or terminated or we may be required to extend the license under less favorable terms. We believe that given our substantial progress in developing the project and our considerable monetary investment, 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 56% of Russia s total coal production.

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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 other ports in the Russian Far East 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 | Dec 2013 | In production | 1954 | Lease |
| | 13367 (Sorokinsk, Tomsk, Sibirginsk)[2] | 2.8 | | | Nov 2025 | In production | 2012 | Lease |
| Olzherassky Open Pit | 01374 (Raspadsk, Berezovsk, Sosnovsk) | 9.3 | Open pit | 2044 | Jan 2014 | 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 | Jan 2014 | 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 | Exploration and development | n/a | |
| V.I. Lenina Underground | 14060 (Olzherassk) | 10.0 | Underground | 2033 | Nov 2013 | 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 | Exploration and development | n/a | 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 | Exploration and development | n/a | |
| Yerunakovskaya-2 Underground (prospect) | 13271 (Yerunakovsk-2, Yerunakovsk)[4][5] | 7.3 | Underground | 2051 | Jul 2025 | Exploration and development | n/a | |
| Olzherasskaya-Glubokaya Underground (prospect) | 13365 (Olzherassk) | 19.2 | Underground | 2211 | Nov 2025 | Exploration | n/a | |
| Usinskaya Underground (prospect) | 14093 (Olzherassk) | 3.6 | Underground | 2071 | Dec 2014 | No activity | n/a | |

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(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.
(2) We failed to commence production in 2009 as required by the subsoil license, due to unfavorable economic conditions. We expect to commence production at the Raspadsk license area in the second quarter of 2013. In February 2012, we commenced production at the Sorokinsk license area.
(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 market conditions in 2009.
(5) License held by Resurs-Ugol OOO, a subsidiary of Southern Kuzbass Coal Company.

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

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| **Mine** | **Tonnes** | **% of Total Production** | **Tonnes** | **% of Total Production** | **Tonnes** | **% of Total Production** |
| | | | **(In millions of tonnes)[1]** | | | |
| **Coking Coal** | | | | | | |
| Sibirginsky Open Pit | 2.0 | | 2.5 | | 2.1 | |
| Tomusinsky Open Pit | 1.7 | | 1.8 | | 2.0 | |
| V.I. Lenina Underground | 0.7 | | 1.4 | | 1.3 | |
| Sibirginskaya Underground | 0.7 | | 0.5 | | 1.1 | |
| Olzherassky Open Pit | 0.6 | | 0.6 | | 0.6 | |
| Total Coking Coal | 5.7 | 40.1% | 6.8 | 47.9% | 7.1 | 50.3% |
| **Steam Coal** | | | | | | |
| Krasnogorsky Open Pit | 3.7 | | 3.2 | | 3.3 | |
| Sibirginsky Open Pit | 1.4 | | 0.9 | | 0.8 | |
| Olzherassky Open Pit | 0.6 | | 0.5 | | 0.5 | |
| Olzherasskaya-Novaya Underground | 0.4 | | 0.2 | | 0.4 | |
| Tomusinsky Open Pit | 0.4 | | 0.3 | | 0.0 | |
| Total Steam Coal | 6.5 | 45.8% | 5.1 | 35.9% | 5.0 | 35.5% |
| **Anthracite** | | | | | | |
| Krasnogorsky Open Pit | 2.0 | | 2.3 | | 2.0 | |
| Sibirginsky Open Pit | | | | | | |
| Olzherassky Open Pit | | | | | | |
| Olzherasskaya-Novaya Underground | | | | | | |
| Tomusinsky Open Pit | | | | | | |
| Total Anthracite | 2.0 | 14.1% | 2.3 | 16.2% | 2.0 | 14.2% |
| **Total Coal** | 14.2 | 100% | 14.2 | 100% | 14.1 | 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 | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| | | (In thousands of tonnes) | | |
| Coking coal | Russia | 1,567.2 | 1,615.2 | 1,968.6 |
| | Asia | 533.7 | 428.5 | 185.8 |
| | CIS | 429.2 | 378.9 | 164.0 |
| | Europe | 20.5 | 0.0 | 22.1 |
| Total | | 2,550.6 | 2,422.6 | 2,340.5 |
| Anthracite | Europe | 1,186.4 | 1,266.5 | 573.0 |
| | Asia | 343.3 | 311.9 | 20.2 |
| | CIS | 131.3 | 78.8 | 91.1 |
| | Russia | 35.7 | 38.7 | 63.2 |
| | Other | 49.9 | 28.1 | 38.5 |
| | Middle East[1] | 42.3 | 25.4 | 44.0 |
| Total | | 1,788.9 | 1,749.4 | 830.0 |
| PCI | Asia | 1,014.0 | 1,042.7 | 301.3 |
| | Europe | 540.5 | 663.0 | 142.5 |
| | Middle East[1] | 655.6 | 220.2 | 11.6 |
| | Other | 213.2 | 33.0 | 0.0 |
| | CIS | 0.0 | 9.8 | 0.0 |
| Total | | 2,423.3 | 1,968.7 | 455.4 |
| Steam coal | Russia | 68.1 | 265.9 | 279.3 |
| | Middle East[1] | 206.0 | 131.6 | 344.0 |
| | CIS | 27.4 | 96.5 | 332.5 |
| | Europe | 54.9 | 66.6 | 689.7 |
| | Asia | 10.6 | 0.0 | 318.9 |
| | Other | 7.8 | 0.0 | 15.4 |
| Total | | 374.8 | 560.6 | 1,979.8 |
| Middlings | Russia | 19.2 | 33.0 | 0.0 |
| | Europe | 21.5 | 9.5 | 0.0 |
| Total | | 40.7 | 42.5 | 0.0 |
| **Total** | | 7,178.3 | 6,743.8 | 5,605.7 |

(1) Includes Turkey only.

*Bluestone mines*

Coal was first discovered in West Virginia in the mid-1700s, and it is part of a coal-rich area known as Central Appalachia, which comprises West Virginia, the eastern part of Kentucky and the southwestern part of Virginia. Presently, West Virginia is the largest coal producing state in the United States east of the Mississippi River and accounts for 10% of the nation s production.

Our Bluestone mines are located in McDowell and Wyoming counties in southern West Virginia, near the city of Beckley. West Virginia coal areas are located within the central portion of the Appalachian Plateau physiographic province, which is a broad upland that extends from Alabama through Pennsylvania. The mines are organized around three mining complexes: Keystone No. 1 and No. 2 (collectively called the **Keystone** ), Justice Energy and Dynamic Energy, all of which are located in close proximity to each other. Together, the mining complexes comprise three active surface mines and three active underground mines.

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

| Mine | 2012 Tonnes | 2012 % of Total Production | 2011 Tonnes | 2011 % of Total Production | 2010 Tonnes | 2010 % of Total Production |
|---|---|---|---|---|---|---|
| | | | (In millions of tonnes)[1] | | | |
| **Coking Coal** | | | | | | |
| Keystone | 1.8 | | 2.3 | | 2.0 | |
| Justice Energy | 0.4 | | 1.0 | | 1.0 | |
| Dynamic Energy | 1.0 | | 1.6 | | 1.0 | |
| Total Coking Coal | 3.2 | 88.9% | 4.9 | 90.7% | 4.0 | 87.0% |
| **Steam Coal** | | | | | | |
| Dynamic Energy | 0.2 | | 0.2 | | 0.3 | |
| Keystone | 0.0 | | 0.1 | | 0.2 | |
| Justice Energy | 0.2 | | 0.2 | | 0.1 | |
| Total Steam Coal | 0.4 | 11.1% | 0.5 | 9.3% | 0.6 | 13.0% |
| **Total Coal** | 3.6 | 100% | 5.4 | 100% | 4.6 | 100% |

(1) Volumes are reported on a wet basis.

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

| Coal Type | Region | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| | | (In thousands of tonnes) | | |
| Coking coal | Europe | 609.7 | 1,224.1 | 1,142.0 |
| | Asia | 378.7 | 402.7 | 186.7 |
| | United States | 212.4 | 426.0 | 324.1 |
| | CIS | 178.7 | 263.2 | 225.3 |
| | Other | 101.5 | 248.5 | 112.5 |
| | Middle East[1] | 21.0 | 75.2 | 84.8 |
| Total | | 1,502.0 | 2,639.7 | 2,075.4 |
| Steam coal | United States | 323.1 | 565.7 | 358.1 |
| | Europe | 119.9 | 0.0 | 0.0 |
| | Asia | 16.6 | 0.0 | 0.0 |
| | Other | 19.7 | 0.0 | 0.0 |
| Total | | 479.3 | 565.7 | 358.1 |
| **Total** | | 1,981.3 | 3,205.4 | 2,433.5 |

(1) Includes Turkey only.

The mines in the Keystone complex produce premium low-volatile coking coal. The complex includes an active surface mine and two active underground mines, as set out in the table below. Seam thickness ranges from a few centimeters to 1.8 meters. Coal from the mines is hauled by dump truck directly to the complex s preparation plant for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of 28,328 hectares, of which 4,975 hectares are owned, 7,910 hectares are leased under long term leases expiring from 2031 to 2032 and 15,443 hectares are leased in perpetuity.

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The mines in the Justice Energy complex produce mid-volatile coking coal. The complex includes one active surface mine, as set out in the table below. Seam thickness ranges from a few centimeters to 1.52 meters. Coal from the mine is hauled by dump truck directly to the complex s preparation plant (which is leased from Natural Resource Partners) for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of 7,485 hectares, of which 602 hectares are owned, 1,334 hectares are leased under long term leases expiring from 2018 to 2019 and 5,549 hectares are leased in perpetuity.

The mines in the Dynamic Energy complex produce high-volatile coking coal. The complex includes an active surface mine and an active underground mine, as set out in the table below. Seam thickness ranges from a few centimeters to 2.1 meters, with the majority of seams being more than one meter thick. Coal from the mines is hauled by dump truck directly to the complex s preparation plant (which is leased from Natural Resource Partners) for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of approximately 2,980 hectares, which are leased in perpetuity.

The table below sets forth certain information regarding each of our Bluestone mines.

| Complex | Mine | Mining Method[1] | Life of Mine | Permit Expiration Dates[2] | Status[3] | Year Production Commenced |
|---|---|---|---|---|---|---|
| Keystone | Mine 58 | Room and pillar | 2016 | October 2013, September 2013 | Idle | 1998 |
| | Mine 65 | Room and pillar | 2014 | June 2013, December 2013 | In production | 1998 |
| | Job 39 | Mountain top removal, contour and highwall | 2030 | December 2016, December 2017 | No longer active | 2001 |
| | Pocahontas No. 11 Contour and Auger No. 2 | Contour and highwall | 2031 | May 2013, July 2014 | In production | |
| Justice Energy | Job 38 | Mountain top removal | 2015 | August 2012[4], August 2013 | In production | 1982 |
| Dynamic Energy | Job 30 | Mountain top removal | 2015 | May 2017, May 2017 | In production | 1997 |
| | Ben s Creek 1 (Frontier) | Room and pillar | 2014 | December 2017, June 2015 | Idle | 2007 |

(1) Mountain top removal and contour mining are surface mining methods. Room and pillar is an underground mining method. Highwall mining is a specific method of mining which we consider to be an underground mining method.

(2) Expiration dates listed for the following permits issued by the WVDEP: (1) Article 3 Surface Mining Permit and (2) NPDES Article 11 402 Permit.

(3) In production refers to sites that are currently producing coal. Idle refers to sites that are capable to be productive but temporarily neither active nor being developed. No longer active refers to sites where mining is finished in the reporting year.

(4) The permit expired in August 2012. We applied for the renewal of the permit to the WVDEP within the timeframe required by the law. Due to the lack of resources at the WVDEP, a decision on its application was delayed. It is not a violation of law to continue operations during the pendency of the renewal application. We expect the permit to be renewed.

In October-November 2012, we temporarily idled our Bluestone mines due to high levels of coal inventories and adverse market conditions. In January 2013, we resumed mining operations in surface mines at Justice Energy and Dynamic Energy, and in March 2013 we resumed mining operations in Mine 65 at Keystone. In April 2013, we started mining operations in Pocahontas No. 11 Contour and Auger No. 2 mine at Keystone. Mining operations in other mines are anticipated to resume once market conditions improve.

Coal is transported from our West Virginia mining complexes to customers by means of railways, trucks, barge lines and ocean-going ships from terminal facilities. Most of the Bluestone production is shipped via the

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Norfolk Southern Railway, so our West Virginia operations are dependent on the capacity of and its relationship with the Norfolk Southern Railway. In 2012, we agreed upon lower freight rates with the Norfolk Southern Railway. These shipments either go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2010, all exports of our West Virginia coal were transported through the port of Norfolk, Virginia. In April 2011, we began exporting coal through the port of New Orleans by trucking coal to a local river terminal and transporting it via barge down the Mississippi River to the port.

Most of the coal produced at the Bluestone mines is washed. Some coal extracted from the surface mines is sufficiently clean to bypass the coal washing process. This coal is either blended with washed coal or other clean mined material from different seams to produce a metallurgical quality product. Coal is hauled from the mines to the coal washing facilities by truck.

***Coal washing plants***

We operate five 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 and one coal washing plant located near Yakutugol.

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. In December 2010, three out of thirty thickeners at Neryungrinskaya Washing Plant collapsed. There were no injuries but the collapse led to the suspension of works at the washing plant. We took measures to restore the thickeners. Two of three sections of the washing plant were re-launched in February 2011 and the remaining section in the middle of July 2011.

All of the coal feedstock enriched by our washing plants in 2012 (27.0 million tonnes) was supplied by our own mining operations.

In October 2012, we launched a modular seasonal washing plant for the Elga coal deposit, which operates in the warmer months of April to October only, with a seasonal capacity of 2.0 million tonnes of coal.

For our Bluestone mining operations we have four coal washing plants as follows:

| Complex | Coal Washing Plant | Capacity (Short tons per year) | Status | Year Commissioned |
|---|---|---|---|---|
| Keystone | KS1 | 2,000,000[1] | Temporarily idled in February 2011 due to excess capacity but under care and maintenance | 1920s, 1977 |
| | KS2 | 3,250,000 | In use | 2010 |
| Justice Energy | Red Fox[2] | 1,900,000 | In use | 2006 |
| Dynamic Energy | Coal Mountain[2] | 1,900,000 | In use, but underutilized; awaiting commencement of production at new mines | 2007 |

(1) The plant also has a thermal dryer.
(2) Contracted pursuant to a long-term agreement with Natural Resources Partners and Taggart. The plant is operated by Taggart with its own personnel.

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***Investments in coal companies***

We own 16.14% of Mezhdurechye OAO, a Russian coal producer whose production volume accounted for 5.0% of Russian coking coal output and 1.8% of Russian total coal output in 2012, 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.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (Coke and chemical products in thousands of tonnes) (Coke gas in millions of cubic meters) | | |
| Mechel Coke | | | |
| Coke (6% moisture) | 2,692 | 2,552 | 2,614 |
| Chemical products | 143 | 142 | 133 |
| Coke gas | 852 | 833 | 870 |
| Moscow Coke and Gas Plant | | | |
| Coke (6% moisture) | 921 | 1,149 | 1,270 |
| Chemical products | 44 | 53 | 50 |
| Coke gas | 384 | 463 | 492 |
| Total | | | |
| Coke (6% moisture) | 3,613 | 3,701 | 3,884 |
| Chemical products | 187 | 195 | 183 |
| Coke gas | 1,236 | 1,296 | 1,362 |

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Coke | 1,113 | 1,042 | 1,151 |
| Chemical products | 192 | 191 | 171 |

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

| Production Area | Capacity in 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (Coke and chemical products in thousands of tonnes) (Coke gas in millions of cubic meters) | | |
| Coke (6% moisture) | 1,202 | 76.6% | |
| Chemical products | 57 | 76.6% | |
| Coke gas | 501 | 76.6% | |

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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | | (In thousands of tonnes) | |
| Coke (6% moisture) | 3,081 | 87.4% | 53 |

Our own production facilities purchase a substantial majority of our coke production. For the years ended December 31, 2012, 2011 and 2010, purchases of our coke by our own production facilities amounted to 2.4 million tonnes, 2.3 million tonnes and 2.5 million tonnes, respectively, which represented 69%, 69% and 68% 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 customers 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 | June 2014 | In production | 1965 | Lease |
| Rudnogorsky Open Pit | 14052 (Rudnogorsk) | 5.1 | Open pit | June 2014 | In production | 1984 | Ownership |

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

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

| Mine | 2012 Tonnes | 2012 Grade (% Fe) | 2011 Tonnes | 2011 Grade (% Fe) | 2010 Tonnes | 2010 Grade (% Fe) |
|---|---|---|---|---|---|---|
| | | | (In millions of tonnes)[1] | | | |
| Korshunovsky Open Pit | 6.9 | 24.3% | 6.5 | 25.6% | 5.0 | 26.9% |
| Rudnogorsky Open Pit | 5.7 | 31.5% | 6.1 | 31.3% | 6.0 | 32.5% |
| Tatyaninsky Open Pit[2] | | | 0.2 | 27.4% | 0.1 | 27.8% |
| Total ore production | 12.6 | 27.6% | 12.8 | 28.3% | 11.1 | 29.9% |
| Iron ore concentrate production | 4.4 | 62.2% | 4.5 | 62.5% | 4.2 | 62.2% |

(1) Volumes are reported on a wet basis.
(2) Subsoil license for Tatyaninsky Open Pit was surrendered in 2012.

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. Our Yakutugol 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 | Year Production Commenced | Surface Land Use Rights |
|---|---|---|---|---|---|---|---|
| Pionerskoye | 03034 (Pionersk) | 9.95 | Open pit | August 2031 | No activity | n/a | Lease |
| Sivaglinskoye | 03153 (Sivaglinsk) | 2.2 | Open pit | March 2022 | No activity | n/a | |
| Sutamskaya area | 03158 (Sutamskaya area) | 731.3 | Open pit | March 2037 | No activity | n/a | |

***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 2014.

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 2012, approximately 66.8% of the limestone produced at Pugachevsky Open Pit was used internally as auxiliary, with 54.8% shipped to Chelyabinsk Metallurgical Plant, 9.1% shipped to Southern Urals Nickel Plant, 2.4% to Izhstal, 0.5% to Beloretsk Metallurgical Plant, approximately 14.1% sold to third parties, and approximately 19.1% 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.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Pugachevsky Open Pit | 1,997 | 2,105 | 1,895 |

***Sales of mining products***

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

| Product | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | (In thousands of tonnes)[1] | | | (% of total sales, including intra-group) | | |
| Coking coal concentrate | 8,957.0 | 9,643.0 | 8,292.1 | 72.4% | 77.0% | 73.9% |
| Steam coal | 2,019.6 | 3,373.5 | 4,254.8 | 71.4% | 85.6% | 79.1% |
| Anthracite and PCI | 4,552.8 | 4,008.4 | 1,879.3 | 95.6% | 92.9% | 86.7% |
| Iron ore concentrate | 4,156.9 | 2,711.1 | 3,283.1 | 76.7% | 61.6% | 83.9% |
| Coke | 1,112.8 | 1,041.7 | 1,150.8 | 31.2% | 31.3% | 31.0% |
| Chemical products | 191.6 | 191.5 | 171.3 | 41.8% | 98.2% | 100.0% |

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

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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 24 to the consolidated financial statements.

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| **Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** |
| | **(In millions of U.S. dollars, except for percentages)** | | | | | |
| Coking coal concentrate | 1,453.0 | 44.1% | 2,223.4 | 53.2% | 1,457.5 | 47.7% |
| Domestic Sales | 16.5% | | 17.2% | | 21.8% | |
| Export | 83.5% | | 82.8% | | 78.2% | |
| Steam coal | 143.4 | 4.3% | 220.8 | 5.3% | 361.5 | 11.8% |
| Domestic Sales | 51.4% | | 58.7% | | 25.6% | |
| Export | 48.6% | | 41.3% | | 74.4% | |
| Anthracite and PCI | 703.0 | 21.3% | 720.8 | 17.3% | 296.9 | 9.7% |
| Domestic Sales | 1.7% | | 1.1% | | 6.4% | |
| Export | 98.3% | | 98.9% | | 93.6% | |
| Middlings | 119.9 | 3.7% | 91.1 | 2.2% | 71.1 | 2.3% |
| Domestic Sales | 86.3% | | 89.4% | | 100.0% | |
| Export | 13.7% | | 10.6% | | 0.0% | |
| Coke | 291.4 | 8.8% | 374.7 | 9.0% | 360.0 | 11.8% |
| Domestic Sales | 77.1% | | 54.7% | | 72.8% | |
| Export | 22.9% | | 45.3% | | 27.2% | |
| Chemical products | 75.5 | 2.3% | 76.5 | 1.8% | 48.5 | 1.6% |
| Domestic Sales | 73.9% | | 70.8% | | 68.3% | |
| Export | 26.1% | | 29.2% | | 31.7% | |
| Iron ore concentrate | 444.7 | 13.5% | 370.1 | 8.9% | 338.8 | 11.1% |
| Domestic Sales | 26.5% | | 46.7% | | 40.0% | |
| Export | 73.5% | | 53.3% | | 60.0% | |
| Other[(1)] | 66.7 | 2.0% | 96.4 | 2.3% | 121.6 | 4.0% |
| Total | 3,297.6 | 100.0% | 4,173.8 | 100.0% | 3,055.9 | 100.0% |
| Domestic Sales | 27.0% | | 26.7% | | 34.4% | |
| Export | 73.0% | | 73.3% | | 65.6% | |

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

***Marketing and distribution***

Our Russian domestic sales are conducted directly by our own production facilities. Our export sales are conducted by Mechel Carbon, based in Baar, Switzerland, and Mechel Carbon Singapore. Mechel Carbon Singapore was established in January 2012 to cover marketing and sales activities in the fast-growing Asia-Pacific market. It will consolidate the total scope of trading operations in the Asia-Pacific region by mid-2013, with Mechel Carbon focusing on covering the Atlantic seaborne market. 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.

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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] | 2012 | 2011 | 2010 |
|---|---|---|---|
| Russia | 25.4% | 24.6% | 32.3% |
| Other CIS | 8.9% | 13.4% | 8.1% |
| Europe | 14.5% | 17.8% | 18.3% |
| Asia | 42.6% | 35.1% | 35.2% |
| Middle East[2] | 4.8% | 3.4% | 2.8% |
| United States | 1.6% | 2.1% | 2.1% |
| Other | 2.2% | 3.6% | 1.2% |
| Total | 100% | 100% | 100% |

(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 only.

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 23.0% of our mining segment sales in 2012.

| Customer | % of Total Mining Segment Sales | Product | % of Total Products Sales |
|---|---|---|---|
| EvrazHolding | 7.7% | Coking coal concentrate | 9.5% |
| | | Iron ore concentrate | 26.0% |
| ArcelorMittal | 6.3% | Coking coal concentrate | 3.7% |
| | | PCI and Anthracite | 22.0% |
| JFE Steel Corporation | 3.3% | Coking coal concentrate | 4.1% |
| | | PCI and Anthracite | 7.3% |
| Far Eastern Generating Company OAO | 3.2% | Steam coal | 0.7% |
| | | Middlings | 86.3% |
| Eregli Iron&Steel Works | 2.6% | PCI and Anthracite | 12.0% |

*Sales by Russian subsidiaries*

***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. Our largest domestic customer for our coking coal concentrate was EvrazHolding, accounting for 9.5% of our total coking coal concentrate sales and 4.2% of our total mining segment sales in 2012.

Pursuant to a directive from the FAS dated August 14, 2008, we entered into long-term coking coal supply contracts with some of our major domestic customers. These contracts provide for the supply of coking coal concentrate under a fixed price based on the price of premium hard coking coal under one-year contracts under FOB terms from Australian ports, excluding the costs of transshipment and rail transportation, with the application of a coefficient representing the quality of the coal concentrate. Previously, the delivery terms for most of our major domestic customers provided for sale at spot market prices. The long-term contracts were entered into with MMK, EvrazResurs, Severstal, KOKS and Metalltrade for terms of four and five years for a total annual delivery volumes of four to five million tonnes of coking coal. However, MMK, one of our major domestic customers with which we have entered into a five-year contract for delivery of a total of 12 million

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tonnes of coking coal, has filed a lawsuit in a Russian court seeking invalidation of its five-year contract. Metalltrade also has filed a lawsuit seeking termination of its five-year contract. Both of the petitions were dismissed by the court. In general, the long-term contracts executed in accordance with the FAS directive do not guarantee sale of the volumes fixed under the contracts. In practice, customers may refuse to purchase products under these contracts and we have no means to influence them to take the contracted volumes in full.

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 $27.9 million in 2012. In total, 807.9 thousand tonnes of steam coal was sold within our group, including coal purchased from third parties. SUE HCS Sakha Republic (Yakutia) is our largest domestic customer of steam coal, accounting for 9.5% of our total steam coal sales and 0.4% of our total mining segment sales in 2012.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, EvrazHolding, accounted for 26.0% of our total iron ore concentrate sales and 3.5% of our total mining segment sales in 2012. We set our prices on a monthly or quarterly basis as agreed with the customers.

The majority of coke is sold domestically to our subsidiaries Chelyabinsk Metallurgical Plant, Southern Urals Nickel Plant, Bratsk Ferroalloy Plant and Tikhvin Ferroalloy Plant, which accounted for 68.8% of our total coke sales (including intra-group sales) by volume in 2012, including coke purchased from third parties. Major third party customers include cast iron, steel and ferroalloy plants 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 and forwarding company, which owns its own rail rolling stock, consisting of 1,175 open cars and 106 pellet cars, leases 64 open cars and has 7,109 open cars under equipment finance leases. In 2012, Mecheltrans transported domestically approximately 27.3 million tonnes of our cargo, approximately 69% of which was comprised of coal and iron ore concentrate.

***Export sales***

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

In 2012, the largest foreign customer of our mining segment was ArcelorMittal, accounting for 6.3% of our total mining segment sales. ArcelorMittal purchases consisted of coking coal concentrate and PCI and anthracite.

We were Russia s largest exporter of coking coal concentrate in 2012, according to RasMin. Our exports of coking coal concentrate are primarily to China, Ukraine, Japan, India and South Korea. In 2012, POSCO, Winsway Resources, Ducalion Trading, Annabelle Limited and JFE Steel Corporation were our largest foreign customers of coking coal concentrate, accounting for 24.4% of our total coking coal concentrate sales and 10.7% 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 India, which together accounted for 90.4% of our total PCI and anthracite sales and 19.3% of our total mining segment sales in 2012. In 2012, our largest foreign customers of PCI and anthracite were ArcelorMittal, Eregli Iron&Steel Works, JFE Steel Corporation, Rizhao Rijin Chemical&Industry Co. and Gerdau Acominas.

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Our exports of steam coal are primarily to Turkey, Europe and Kazakhstan, which together accounted for 45.7% of our total steam coal sales and 2.0% of our total mining segment sales in 2012. In 2012, our largest foreign customers of steam coal were Toplofikatsia Rousse, Karbon Aray Enerji Madencilik Nakliye Sanayi Ve Ticaret, Enercom Company, Femex Coal Trading and Erva Madencilik Sanayi Ve Ticaret.

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

In 2012, we used annual contracts for export sales of coal, except for sales to Chinese customers. Coal not shipped under annual contracts was sold on the spot market.

We sold iron ore concentrate to customers in China during 2012, which accounted for 73.5% of our total iron ore concentrate sales and 9.9% of our total mining segment sales in 2012. We ship iron ore concentrate to China by rail.

We export coke primarily to Europe, Turkey, India and Kazakhstan, which together accounted for 20.8% of our total coke sales and 1.8% of our total mining segment sales in 2012. We also sell coke breeze to metallurgical plants in Western Europe.

Our Port Posiet processed 4.5 million tonnes of coal in 2012. From Port Posiet we ship primarily our steam coal and coking coal concentrate to Japan, Korea and China. While the port is undergoing upgrade and modernization, its current capacity is approximately 4.5 million tonnes of annual cargo-handling throughput and its warehousing capacity is limited to 100 thousand tonnes per month for one-time storage of no more than two grades of coal. 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 Yakutugol coal production to market.

In 2012, Mecheltrans transported for export approximately 15.9 million tonnes of our cargo, approximately 85% of which was comprised of coal and iron ore concentrate.

*Sales by U.S. subsidiaries*

Bluestone mining business sold 2.0 million tonnes of coking and steam coal in 2012, 73% of which was sold to the export market. Substantially all of the coal was sold on the spot market. Coal is transported from the mining complexes to customers by means of railroads, trucks, barge lines and ocean-going ships from terminal facilities. A major portion of production is shipped via the Norfolk Southern Railway, so our Bluestone operations are dependent on the capacity of and our relationships with the Norfolk Southern Railway. These shipments either go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2012, Bluestone exports went through the port of Norfolk, Virginia and the port of New Orleans, Louisiana.

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***Market share and competition***

*Coal*

According to AME, we were among the 10 largest metallurgical coal exporters in the world in 2012. The following table lists the major world metallurgical coal exporters and their shares of the total metallurgical coal international trade in 2012.

| Company | Metallurgical Coal Export (Millions of Tonnes) | % of Total Internationally Traded Metallurgical Coal |
|---|---|---|
| BHP Billiton Limited | 23 | 8% |
| Mitsubishi Corporation | 19 | 6% |
| Teck Resources Limited | 18 | 6% |
| Anglo American plc | 16 | 5% |
| Xstrata plc | 14 | 5% |
| Walter Energy Inc | 14 | 4% |
| Peabody Energy Corporation. | 13 | 4% |
| Rio Tinto Group | 11 | 4% |
| Wesfarmers Limited | 8 | 3% |
| Mechel OAO | 7 | 2% |
| Other | 164 | 53% |
| Total Metallurgical Coal Exports | 307 | 100% |

Source: AME.

According to the Central Dispatching Department, in 2012 the Russian coal mining industry was represented by 208 companies, which operated 89 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, the ten largest coal mining companies in Russia produced 74.8% of the overall coal production volume in 2012.

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According to data from the Central Dispatching Department, in 2012, we were the largest coking coal producer in Russia, with a 20.0% share of total production by volume, and we had a 6.8% market share with respect to overall Russian coal production by volume. The following table lists the main Russian coking coal producers in 2012, 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 |
|---|---|---|---|
| Mechel OAO | Southern Kuzbass Coal Company OAO | 5,659 | 7.8% |
| | Yakutugol Holding Company OAO | 8,817 | 12.2% |
| | Mechel Total | 14,476 | 20.0% |
| Severstal OAO | Vorkutaugol OAO | 9,563 | 13.2% |
| Evraz Group S.A. | Yuzhkuzbassugol Coal Company ZAO | 8,506 | 11.8% |
| Sibuglemet Holding | Polosukhinskaya Mine OAO | 2,921 | 4.0% |
| | Mezhdurechye OAO[1] | 3,618 | 5.0% |
| | Antonovskaya Mine ZAO | 525 | 0.7% |
| | Bolshevik Mine OAO | 1,223 | 1.7% |
| | Sibuglemet Total | 8,287 | 11.4% |
| Raspadskaya OAO | Raspadskaya OAO | 6,975 | 9.6% |
| UMMC | Kuzbassrazrezugol Coal Company OAO | 5,717 | 7.9% |
| MMK OAO | Belon OAO | 3,951 | 5.5% |
| Stroyservis ZAO | Berezovsky Mine OOO | 1,563 | 2.2% |
| | Barzasskoye Partnership OOO | 1,124 | 1.5% |
| | Shestaky Mine OAO | 719 | 1.0% |
| | Mine No. 12 OOO | 416 | 0.6% |
| | Stroyservis Total | 3,822 | 5.3% |
| Other | | 11,062 | 15.3% |
| Total | | 72,359 | 100.0% |

Source: Central Dispatching Department.

(1) We own 16.14% of Mezhdurechye OAO.

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According to data from the Central Dispatching Department, in 2012, we were the fifth largest steam coal producer in Russia in terms of volume, with a 3.4% share of total production. The following table lists the main Russian steam coal producers in 2012, 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) | 28,047 | 9.9% |
| | SUEK OAO (Krasnoyarsk Krai) | 29,504 | 10.4% |
| | Vostsibugol OOO (Irkutsk region) | 14,082 | 5.0% |
| | SUEK OAO (Republic of Khakasia) | 10,212 | 3.6% |
| | SUEK OAO (Tugnuysky Open Pit) | 12,521 | 4.4% |
| | Primorskugol OAO | 4,693 | 1.7% |
| | SUEK OAO (Zabaikalsk Krai) | 4,390 | 1.6% |
| | Urgalugol OAO | 5,083 | 1.8% |
| | Vostsibugol OOO (Irbeysky Open Pit) | 2,668 | 0.9% |
| | SUEK Total | 111,200 | 39.3% |
| UMMC | Kuzbassrazrezugol Coal Company OAO | 39,699 | 14.1% |
| SDS Holding Company | Chernigovets ZAO | 5,457 | 1.9% |
| | Listvyazhnaya Shaft Mine OOO | 3,414 | 1.2% |
| | Salek ZAO | 3,906 | 1.4% |
| | Mayskoe OOO | 1,907 | 0.7% |
| | Energetic Open Pit Mine OOO | 462 | 0.2% |
| | Prokopyevsky Open Pit Mine ZAO | 535 | 0.2% |
| | Sibenergougol OOO | 1,236 | 0.4% |
| | Yuzhnaya Shaft Mine OAO | 1,789 | 0.6% |
| | UK Prokopyevskugol OOO | 85 | 0.0% |
| | Kiselevsky Open Pit Mine OAO | 2,196 | 0.8% |
| | Kiselevskaya Shaft Mine OOO | 262 | 0.1% |
| | SDS Total | 21,249 | 7.5% |
| Zarechnaya Coal Company | Zarechnaya Mine OAO | 4,682 | 1.7% |
| | Oktyabrskaya Mine | 2,677 | 0.9% |
| | Alexievskaya Mine OAO | 2,205 | 0.8% |
| | Karagaylinskoye Mine Office OOO | 238 | 0.1% |
| | Zarechnaya Total | 9,802 | 3.5% |
| Mechel OAO | Southern Kuzbass Coal Company OAO | 8,483 | 3.0% |
| | Yakutugol Holding Company OAO | 1,211 | 0.4% |
| | Mechel Total | 9,694 | 3.4% |
| Kuzbasskaya Toplivnaya Co | Kuzbasskaya Toplivnaya Co | 8,711 | 3.1% |
| Russian Coal Co | UK Stepnoy Open Pit Mine OOO | 3,718 | 1.3% |
| | Amursky Coal OOO | 3,171 | 1.1% |
| | Zadubrovsky Open Pit Mine OOO | 711 | 0.3% |
| | Russian Coal Total | 7,600 | 2.7% |
| Krasnoyarskkraiugol OAO | Krasnoyarskkraiugol OAO | 5,508 | 1.9% |
| Far Eastern Generating Company OAO | Luchegorsky Open Pit Mine | 4,201 | 1.5% |
| Sibuglemet Holding | Mezhdurechye OAO | 2,721 | 1.0% |
| | UK Yuzhnaya OAO | 1,283 | 0.5% |
| | Sibuglemet Total | 4,004 | 1.5% |
| Other | | 60,844 | 21.5% |
| Total | | 282,512 | 100.0% |

Source: Central Dispatching Department.

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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.

According to the U.S. Department of Energy/Energy Information Administration, the total production of coal in the United States in 2012 was 1,016.4 million short tons. Bluestone s share of total production was 0.4%.

*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, the Evraz Group and Severstal-Resurs, representing 69.0% of total production of iron ore concentrate. We were sixth in production volume in 2012 with 4.4 million tonnes of iron ore concentrate, representing 4.4% 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 consist of proved and probable reserves.

IMC Montan ( **IMC** ), an independent international consulting group, which includes IMC Group Consulting Ltd. (UK), LLC IEEC (Russia), WYG International (UK), DMT & Co Kg GmbH (Germany) and other companies worldwide, has independently assessed our coal and iron ore assets by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine plans relating to productivity, production, operating costs, capital expenditures and revenues. In IMC s view, all coal and iron ore reserves estimates have been substantiated by evidence obtained by it in site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by us to IMC.

IMC confirms that our coal and iron ore reserves estimates 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. Coal and iron ore reserve estimates thus represented are referred to as JORC Ore Reserves.

Despite IMC s review, the 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

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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 2013 through 2037. Our most significant licenses expire between 2013 and 2024. 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 mining and other permits or fail to comply with the terms of our subsoil licenses and mining and other 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.

The Bluestone companies mining permits expire in 2013 through 2017. Currently, four of our 45 NPDES permits are pending renewal with the state of West Virginia following orders from the EPA. See Item 3. Key Information Risk Factors Risks Relating to Other Countries Where We Operate The Bluestone companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters and face a highly litigious environment.

As of December 31, 2012, we had coal reserves totaling 3,215.2 million tonnes, of which approximately 75% was coking coal. The table below summarizes coal reserves.

| Company | Proved reserves[1] | Probable reserves[1] | Total | % in Open Pit |
|---|---|---|---|---|
| | (In thousands of tonnes) | | | |
| Yakutugol | 1,931,526 | 491,818 | 2,423,344 | 99.5% |
| Southern Kuzbass Coal Company | 612,628 | 26,310 | 638,938 | 74.5% |
| Bluestone | 85,025 | 67,925 | 152,950 | 61.6% |
| Total | 2,629,179 | 586,053 | 3,215,232 | 92.8% |

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

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The table below summarizes our reserves by coal type as of December 31, 2012.

| Company | Category | Coking | Steam | Anthracite | Lignite | Total[1] |
|---|---|---|---|---|---|---|
| | | | (In thousands of tonnes) | | | |
| | Proved | 1,587,994 | 259,830 | 0 | 83,702 | 1,931,526 |
| | Probable | 393,075 | 98,743 | 0 | 0 | 491,818 |
| Yakutugol | Total | 1,981,069 | 358,573 | 0 | 83,702 | 2,423,344 |
| | Proved | 261,968 | 224,309 | 126,351 | 0 | 612,628 |
| | Probable | 19,034 | 7,173 | 103 | 0 | 26,310 |
| Southern Kuzbass Coal Company | Total | 281,002 | 231,482 | 126,454 | 0 | 638,938 |
| | Proved | 85,025 | 0 | 0 | 0 | 85,025 |
| | Probable | 67,925 | 0 | 0 | 0 | 67,925 |
| Bluestone | Total | 152,950 | 0 | 0 | 0 | 152,950 |
| | Proved | 1,934,987 | 484,139 | 126,351 | 83,702 | 2,629,179 |
| | Probable | 480,034 | 105,916 | 103 | 0 | 586,053 |
| Total | | 2,415,021 | 590,055 | 126,454 | 83,702 | 3,215,232 |

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

The table below sets forth our reserves attributable to our Yakutugol mines as of December 31, 2012.

| Mine | Proved reserves | Probable reserves | Total[1][2] | Heat Value[3] | % Sulfur |
|---|---|---|---|---|---|
| | | (In thousands of tonnes) | | (In kcal/kg) | |
| Neryungrinsky Open Pit[4] | 139,310 | 1,298 | 140,608 | 8,200 | 0.30 |
| Kangalassky Open Pit[5] | 83,702 | 0 | 83,702 | 3,837-4,107 | 0.15-0.85 |
| Dzhebariki-Khaya Underground[5] | 10,956 | 0 | 10,956 | 4,490 | 0.30 |
| Elga Open Pit[6] | 1,697,558 | 490,520 | 2,188,078 | 7,500-8,600 | 0.30 |
| Total | 1,931,526 | 491,818 | 2,423,344 | | |

(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 $134 per tonne (FCA basis) for coking coal and $42-$51 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.
(6) The average coal recovery factor is estimated to be 67%.

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The table below sets forth reserves attributable to our Southern Kuzbass mines as of December 31, 2012.

| Mine | Proved reserves | Probable reserves | Total[1][2][3][4] | Heat Value[5] | % Sulfur |
|---|---|---|---|---|---|
| | (In thousands of tonnes) | | | (In kcal/kg) | |
| Krasnogorsky Open Pit | 218,465 | 194 | 218,659 | 5,800 | 0.40 |
| Olzherassky Open Pit | 57,002 | 6,424 | 63,426 | 8,170 | 0.25 |
| Tomusinsky Open Pit | 14,202 | 4,400 | 18,602 | 8,350 | 0.30 |
| Sibirginsky Open Pit | 175,050 | 45 | 175,095 | 8,483 | 0.30 |
| Sibirginskaya Underground | 42,367 | 4,024 | 46,391 | 8,441 | 0.29 |
| V.I. Lenina Underground | 30,873 | 11,223 | 42,096 | 8,468 | 0.33 |
| Olzherasskaya-Novaya Underground | 37,686 | 0 | 37,686 | 7,900 | 0.30 |
| Yerunakovskaya-1 Underground (project) | 36,983 | 0 | 36,983 | | |
| Yerunakovskaya-3 Underground (prospect)[6] | | | | | |
| Yerunakovskaya-2 Underground (prospect)[6] | | | | | |
| Olzherasskaya-Glubokaya Underground (prospect)[6] | | | | | |
| Usinskaya Underground (prospect)[6] | | | | | |
| Total | 612,628 | 26,310 | 638,938 | | |

(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 $110 per tonne (FCA basis) for coking coal and $70-$84 per tonne (FCA basis) for sized and washed steam coal.
(3) All mines except Tomusinsky Open Pit are 96.6% owned by us. Tomusinsky Open Pit is 74.5% 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 73% (within the range of 53-77%).
(5) Heat value is reported on a moisture- and ash-free basis.
(6) Not considered by IMC in their review because these prospects presently do not have mine plans.

The table below sets forth our reserves attributable to our Bluestone mines as of December 31, 2012.

| Complex | Proved reserves | Probable reserves | Total[1][2][3] | Heat Value[4] | % Sulfur |
|---|---|---|---|---|---|
| | (In thousands of tonnes) | | | (In Btu/lb) | |
| Keystone Surface | 36,038 | 33,051 | 69,089 | 14,724 | 0.75 |
| Keystone Underground | 12,866 | 5,647 | 18,513 | 14,724 | 0.75 |
| Justice Energy Surface | 6,345 | 3,025 | 9,370 | 14,626 | 0.97 |
| Justice Energy Underground | 4,048 | 8,358 | 12,406 | 14,626 | 0.97 |
| Dynamic Energy Surface | 10,443 | 5,300 | 15,743 | 14,611 | 1.01 |
| Dynamic Energy Underground | 15,285 | 12,544 | 27,829 | 14,611 | 1.01 |
| Total | 85,025 | 67,925 | 152,950 | | |

(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 $130 per tonne (FCA basis) for coking coal and $55 per tonne (FCA basis) for steam coal.
(3) Mined coal is processed at our local washing plants at the Keystone, Justice Energy and Dynamic Energy operations. The average coal recovery factor is estimated to be within the range of 44.3-53.9%.
(4) Heat value is reported on a moisture- and ash-free basis.

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As of December 31, 2012, we had iron ore reserves (proved and probable) totaling 192.3 million tonnes at an average iron grade of 28.4%. The table below summarizes iron ore reserves by mine.

| Mine | Proved reserves | Probable reserves | Total[1][2][3] | Grade (Fe%)[4] |
|---|---|---|---|---|
| | | (In thousands of tonnes) | | |
| Korshunovsky Open Pit | 62,961 | 44,874 | 107,835 | 25.4 |
| Rudnogorsky Open Pit | 50,925 | 33,507 | 84,432 | 32.2 |
| Total | 113,886 | 78,381 | 192,267 | 28.4 |

(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 $120 per tonne (CPT basis).
(3) All mines are 85.6% 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, 2012. 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 2014. Our declared limestone reserves are contained within the current license boundary. Based on Russian law and practice, as evidenced by 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. License extension is being granted subject to the licensee not being 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 intend to extend our license for limestone deposit expected to remain productive subsequent to its license expiry date. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities.

Therefore, we present our limestone mineral reserves in two categories. Material contained in the production schedule and cash flow that is expected to be mined prior to the license expiration date is referred to as Within Subsoil License Term Reserves and material contained in the production schedule and cash flow that is expected to be mined after the license expiration date is referred to as Outside Subsoil License Term Reserves.

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As of December 31, 2012, we had limestone reserves (proven and probable) totaling 16.4 million tonnes at 55.2% calcium oxide.

| Reserves[1][2][3] | Within Subsoil License Term | Outside Subsoil License Term | Total | Grade (% CaO) |
|---|---|---|---|---|
| | (In millions of tonnes) | | | |
| Pugachevsky Open Pit | 2.1 | 14.3 | 16.4 | 55.2 |

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.
(2) We own 100% of Pugachevsky Open Pit, the holder of the subsoil license for the Pugachevsky limestone quarry. Reserves are presented for the mine on an assumed 100% ownership basis.
(3) In estimating our reserves we use an average price of $6.39 per tonne of commodity limestone and currency conversions are carried out at average official exchange rates of the CBR.

**Steel Segment**

Our steel segment comprises production and sale of semi-finished steel products, carbon and special steel long products, carbon and stainless flat steel products and high value-added metal products, including wire products, stampings and forgings. 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, and our ferroalloys segment, which includes ferronickel, ferrochrome and ferrosilicon.

Our steel segment has production facilities in Russia, Lithuania, the United Kingdom and Ukraine. Our total steel output was 6.1 million tonnes in 2010, 6.1 million tonnes in 2011 and 6.5 million 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 electric arc furnaces and in 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, Chelyabinsk Metallurgical Plant and Donetsk Electrometallurgical 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 products are manufactured at Chelyabinsk Metallurgical Plant, Izhstal and Beloretsk Metallurgical Plant in Russia and Invicta Merchant Bar in the United Kingdom.

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

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*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 branches in Izhevsk and Chelyabinsk.

*Wire products and seized rolling.* 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.

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Pig Iron | 4,161 | 3,728 | 4,149 |
| Semi-Finished Steel Products, including: | 2,596 | 2,046 | 2,212 |
| Carbon and Low-Alloyed Semi-Finished Products | 2,592 | 1,513 | 1,783 |
| Long Steel Products, including: | 3,161 | 3,590 | 3,515 |
| Stainless Long Products | 13 | 12 | 12 |
| Alloyed Long Products | 265 | 329 | 383 |
| Rebar | 2,018 | 2,091 | 1,901 |
| Wire Rod | 441 | 597 | 713 |
| Low-Alloyed Engineering Steel | 564 | 396 | 341 |
| Flat Steel Products, including: | 523 | 539 | 443 |
| Stainless Flat Products | 27 | 48 | 46 |
| Carbon and Low-Alloyed Flat Products | 496 | 491 | 397 |
| Forgings, including: | 72 | 85 | 76 |
| Stainless Forgings | 5 | 4 | 3 |
| Alloyed Forgings | 48 | 53 | 45 |
| Carbon and Low-Alloyed Forgings | 18 | 24 | 28 |
| Stampings | 111 | 117 | 97 |
| Wire Products, including: | 952 | 997 | 869 |
| Wire | 755 | 774 | 672 |
| Ropes | 54 | 62 | 58 |

***Steel manufacturing process and types of steel***

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

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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 70% 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 30% 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 primarily in manufacturing industries, such as 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 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 create a permanent increase in the hardness and strength of the steel. After cold rolling, annealing in furnaces with gradual cooling that softens and stress-relieves the metal is periodically required. Oil may be applied to the surfaces 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.

***Steel production facilities***

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

*Chelyabinsk Metallurgical Plant*

Chelyabinsk Metallurgical Plant produces rolled products and semi-finished products for further milling in Russia or our internal needs. Chelyabinsk Metallurgical Plant is sintering production for blast furnaces, BOF/EAF steel mill with rolling production. It produces semi-finished steel products, and flat and long carbon and stainless steel products. 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, its iron ore needs from Korshunov Mining Plant and its nickel needs from Southern Urals Nickel Plant. In 2006, coke production and special steel production were separated from Chelyabinsk Metallurgical Plant into separate entities, including Mechel Coke, which were wholly-owned subsidiaries of Chelyabinsk Metallurgical Plant. In August 2007, ownership of Chelyabinsk Metallurgical Plant s special steel operations was transferred to the Chelyabinsk branch of Urals Stampings Plant. In June 2010, a 100% interest in Mechel Coke was transferred to Mechel Mining.

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Chelyabinsk Metallurgical Plant s principal production lines include a BOF workshop equipped with three converters; two EAF workshops equipped with electric arc ovens 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 product 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Sintering | 5,120 | 100.0% | 132 |
| Pig Iron | 4,300 | 96.8% | |
| Steel-making | 5,177 | 95.7% | |
| Rolling | 4,751 | 96.2% | |

Chelyabinsk Metallurgical Plant produced approximately 5.0 million tonnes of raw steel and 4.6 million tonnes of rolled products in 2012.

In the second half of 2007, we began an upgrade of Chelyabinsk Metallurgical Plant s arc-furnace melting shop No. 6 to increase the slab concaster production capacity to 1.2 million tonnes per year. Danieli & C. Officine Meccaniche S.p.A. ( **Danieli** ), an Italian supplier of equipment and plants to the metals industry, is the basic equipment provider for the concasting machine and the out-of-furnace processing complex. In July 2010, we commissioned new production complex in arc-furnace melting shop No. 6 which consists of ladle furnace, vacuum degasser and a slab concaster. Currently, the slab concaster is in commercial operation.

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. The project requires $714.5 million in capital investments. On June 30, 2008, Chelyabinsk Metallurgical Plant entered into a contract with Danieli for supply of the universal rolling mill. The total amount of the contract is 220.0 million. In order to perform design, construction-and-assembling and pre-commissioning works on the rolling mill, on October 29, 2008, Chelyabinsk Metallurgical Plant signed a contract with the Chinese construction company Minmetals Engineering Co. Ltd. ( **Minmetals** ). The contract is concluded on a turnkey basis with a total value of $261.0 million. In 2012, the construction of the building for finishing and dispatching of rail mill products was completed. At present, assemblage and adjustment of the equipment on the mill train are being carried out. The launch of the universal rolling mill is scheduled for 2013.

We expect that the main target customers for the universal mill products will be Russian Railways and construction companies. On November 13, 2008, Chelyabinsk Metallurgical Plant and Russian Railways signed an agreement for 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 commissioning of the universal rail and structural steel mill at the Chelyabinsk Metallurgical Plant.

In December 2010, Mechel Materials started the assembling of the main manufacturing equipment of the grinding-mixing complex for Portland blast-furnace slag cement production with 1.6 million tonnes capacity per annum on the premises of Chelyabinsk Metallurgical Plant. The main raw material will be blast furnace slag produced by Chelyabinsk Metallurgical Plant, which will result in non-waste production of pig iron at the facility. This complex will be the first Russian facility producing high-quality Portland blast-furnace slag cement

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of certain grade (CEMIII/A). Portland blast-furnace slag cement is widely used in construction industry for production of reinforced concrete structures. The general contractor is Austrian FMW GmbH. The amount to be invested is estimated at $174.4 million. The commissioning of the grinding-mixing complex is planned for the second quarter of 2013.

*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 30 and 40 tonnes; two ladle furnaces and a ladle vacuum oxygen decarburizer; a blooming mill for 100-220 millimeter square billets; three 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 January 2011, stampings production was separated and transferred to the Izhevsk branch of Urals Stampings Plant. 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Steel-making | 351 | 95.1% | |
| Rolling | 420 | 98.2% | |
| Wire products and seized rolling | 6 | 86.5% | |

Izhstal produced approximately 333.8 thousand tonnes of raw steel, 412.2 thousand tonnes of rolled products and approximately 5.2 thousand tonnes of wire products and seized rolling in 2012.

In order to improve Izhstal s efficiency, in the second half of 2007 we began the first stage of an upgrade at the Izhstal mill, including the installation of a new modern electric arc furnace with a total capacity of 40 tonnes, an out-of-furnace processing complex and a new concasting machine, in addition to reconstruction of rolling mill No. 250 and the disposal of outdated open-hearth furnaces. The new electric steel-making complex was commissioned in 2010 and currently the equipment is in commercial operation. Reconstruction of rolling mill No. 250 which had been suspended due to the global financial and economic crisis of 2008-2009 was resumed in October 2010. The rolling mill was commissioned in 2011 and currently the production facilities are in commercial operation. The upgrade process resulted in: (1) significant reductions in consumption of metal, natural gas and electric power in rolled product manufacturing, (2) improvements in product quality to meet current international standards and expansion of product range, and (3) environmental improvements.

*Beloretsk Metallurgical Plant*

Beloretsk Metallurgical Plant is a wire products plant in Beloretsk, in the southern Ural Mountains, that produces wire rod and a broad range of wire products from semi-finished steel products supplied by Chelyabinsk Metallurgical Plant. 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

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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. 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Rolling | 630 | 100.0% | |
| Wire products | 590 | 95.5% | |

Beloretsk Metallurgical Plant produced a total of 565.5 thousand tonnes of wire products in 2012. Rolled products production amounted to a total of 630.0 thousand tonnes, out of which 489.6 thousand tonnes were further processed into wire products and 140.7 thousand tonnes constituted the output volume of wire rod for third party customers.

*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 and chain linking machines and nail-making presses. 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Wire products | 130 | 91.7% | |

Vyartsilya Metal Products Plant produced 119.2 thousand tonnes of wire products in 2012.

*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 branches in Izhevsk and 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Stampings and forgings | 213 | 85.9% | |

Urals Stampings Plant produced 182.7 thousand tonnes of special steel stampings and forgings in 2012.

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*Mechel Nemunas*

Mechel Nemunas is a Lithuanian wire products plant that produces drawn, annealed and seized wire, nails, steel wire fiber and chain link fences. Its customers are primarily from the construction industry. We acquired Mechel Nemunas in 2003.

Mechel Nemunas s principal production facilities include drawing machines and nail-making presses with shank threading, 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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Wire products | 90 | 94.8% | |

Mechel Nemunas produced 85.3 thousand tonnes of wire products in 2012.

*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 thermal treatment. The plant s customers are largely from the automotive and shipbuilding industries. We acquired Donetsk Electrometallurgical Plant in December 2011.

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. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Donetsk Electrometallurgical Plant s principal production areas.

| Production Area | Capacity in 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Steel-making | 1,100 | 45.9% | |
| Rolling | 1,100 | 5.5% | |

Donetsk Electrometallurgical Plant produced 504.9 thousand tonnes of raw steel and 60.5 thousand tonnes of rolled products in 2012.

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***Sales of steel 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. Steel segment sales data presented in Steel Segment do not include intercompany sales.

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| **Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** |
| | **(In millions of U.S. dollars, except for percentages)** | | | | | |
| Pig Iron | 110.1 | 1.6% | 122.6 | 1.7% | 63.5 | 1.1% |
| Semi-Finished Products, including: | 1,163.2 | 17.1% | 1,300.1 | 18.2% | 1,235.6 | 22.1% |
| Carbon and Low-Alloyed Semi-Finished Products[(1)] | 993.2 | 14.6% | 1,072.6 | 15.0% | 1,091.9 | 19.5% |
| Long Steel Products, including: | 2,884.9 | 42.4% | 3,076.5 | 43.0% | 2,266.8 | 40.6% |
| Stainless Long Products | 42.2 | 0.6% | 33.5 | 0.5% | 51.8 | 0.9% |
| Other Long Products | 1,030.4 | 15.1% | 1,183.2 | 16.5% | 777.2 | 13.9% |
| Rebar | 1,689.0 | 24.8% | 1,645.5 | 23.0% | 1,150.3 | 20.6% |
| Wire Rod | 123.3 | 1.8% | 214.3 | 3.0% | 287.5 | 5.1% |
| Flat Steel Products, including: | 635.8 | 9.4% | 739.5 | 10.3% | 487.3 | 8.7% |
| Stainless Flat Products | 147.2 | 2.2% | 224.2 | 3.1% | 204.6 | 3.7% |
| Carbon and Low-Alloyed Flat Products | 488.6 | 7.2% | 515.3 | 7.2% | 253.6 | 4.5% |
| Forgings, including: | 152.9 | 2.2% | 167.0 | 2.3% | 121.0 | 2.2% |
| Stainless Forgings | 39.4 | 0.6% | 43.1 | 0.6% | 22.8 | 0.4% |
| Other Forgings | 113.5 | 1.6% | 123.9 | 1.7% | 98.2 | 1.8% |
| Stampings | 289.7 | 4.3% | 302.3 | 4.2% | 191.4 | 3.4% |
| Wire Products, including: | 888.9 | 13.1% | 944.2 | 13.2% | 722.9 | 12.9% |
| Wire | 593.1 | 8.7% | 641.9 | 9.0% | 491.5 | 8.8% |
| Ropes | 83.1 | 1.2% | 92.6 | 1.3% | 75.2 | 1.3% |
| Other Wire Products | 212.7 | 3.1% | 209.7 | 2.9% | 156.2 | 2.8% |
| Steel Pipes | 260.6 | 3.8% | 240.6 | 3.4% | 114.8 | 2.1% |
| Other | 417.3 | 6.1% | 261.6 | 3.7% | 382.9 | 6.9% |
| Total | 6,803.4 | 100% | 7,154.4 | 100% | 5,586.2 | 100% |

(1) Excludes revenues from slab sales.

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)]** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Russia | 56.5% | 53.5% | 54.7% |
| Other CIS | 10.6% | 6.4% | 7.0% |
| Europe | 19.1% | 23.3% | 17.9% |
| Asia | 3.3% | 0.8% | 2.8% |
| Middle East[(2)] | 7.5% | 10.8% | 14.7% |
| United States | 0.9% | 1.8% | 0.3% |
| Other | 2.1% | 3.4% | 2.6% |
| Total | 100% | 100% | 100% |

(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.

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(2) Our steel segment sales to Middle East primarily go to Saudi Arabia, Turkey and Iran, which together accounted for 82.6% of the total steel segment sales to Middle East in 2012. We did not have any direct sales to Iran and Syria in 2012, and we have no plans to make such direct sales in the future.

In 2012, the five largest customers of our steel segment products were Al-Ittefaq Steel Products Co. (semi-finished products), Pervouralsk New Pipe Plant (long steel products, semi-finished products, wire rod and flat steel products), Donetsksteel (semi-finished products and long steel products), Amesco FZE (semi-finished products and wire rod) and Magellan Corporation (long steel products), which together accounted for 5.5% of our steel segment sales.

In 2012, we continued operations with the related metallurgical plants. We also continued selling semi-finished products, long steel products, flat steel products and pig iron to Metallurg-Trust. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. These transactions furthered all parties interests in expanding our group s operations and products range in the steel market and allowing the related metallurgical plants access to our group s strong supply and sales networks. Revenues from sales to the related metallurgical plants and Metallurg-Trust amounted to 11.0% of our steel segment sales in 2012.

The majority of our steel segment export sales are made to end users in non-sanctioned countries on CFR basis, and the minority of our steel products is exported to independent distributors and traders on FOB basis. 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. We do not have control over the final destination of our products, contractually or otherwise. We refer to such sales as indirect sales .

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 1.4% of our total sales in 2012 were sold in the Sanctioned Countries, of which 0.9% were indirect sales by independent distributors and traders to other distributors or end users and 0.5% were direct sales to customers in Belarus.

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

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The following table sets forth information on our domestic and export sales of our primary steel 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 24 to the consolidated financial statements.

| Products | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In millions of U.S. dollars, except for percentages) | | |
| Pig Iron | 110.1 | 122.6 | 63.5 |
| Domestic Sales | 46.2% | 17.7% | 62.7% |
| Export | 53.8% | 82.3% | 37.3% |
| Semi-Finished Steel Products | 1,163.2 | 1,300.1 | 1,235.6 |
| Domestic Sales | 26.9% | 26.9% | 18.2% |
| Export | 73.1% | 73.1% | 81.8% |
| Long Steel Products | 2,884.9 | 3,076.5 | 2,266.8 |
| Domestic Sales | 83.3% | 81.9% | 76.1% |
| Export | 16.7% | 18.1% | 23.9% |
| Flat Steel Products | 635.8 | 739.5 | 487.3 |
| Domestic Sales | 87.6% | 86.1% | 92.2% |
| Export | 12.4% | 13.9% | 7.8% |
| Forgings | 152.9 | 167.0 | 121.0 |
| Domestic Sales | 83.7% | 78.4% | 74.5% |
| Export | 16.3% | 21.6% | 25.5% |
| Stampings | 289.7 | 302.3 | 191.4 |
| Domestic Sales | 93.7% | 91.9% | 92.7% |
| Export | 6.3% | 8.1% | 7.3% |
| Wire Products | 888.9 | 944.2 | 722.9 |
| Domestic Sales | 80.7% | 78.2% | 79.1% |
| Export | 19.3% | 21.8% | 20.9% |
| Steel Pipes | 260.6 | 240.6 | 114.8 |
| Domestic Sales | 96.1% | 98.9% | 99.9% |
| Export | 3.9% | 1.1% | 0.1% |
| Other | 417.3 | 261.6 | 382.9 |
| Domestic Sales | 99.0% | 96.9% | 93.9% |
| Export | 1.0% | 3.1% | 6.1% |
| Total | 6,803.4 | 7,154.4 | 5,586.2 |
| Domestic Sales | 75.0% | 72.2% | 67.2% |
| Export | 25.0% | 27.8% | 32.8% |

The end users of our steel products vary. Our rebars are principally used in the construction industry. The main end users of our wire rods are small wire-drawing operations. Our carbon sheet is used in the construction (covers, floor plates), automotive (spare parts) and pipe manufacturing industries. Our high-quality round bars are used in various moving parts manufactured by the automotive industry (spare parts, gear boxes), the machinery industry (hydraulic devices, drill bits), the shipbuilding industry (forged parts), the aircraft industry (spare parts for turbines and gears) and other industries. Our forgings and stampings are primarily used in the automotive, aerospace, petrochemical, textile and food and consumer goods sectors.

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The following table sets forth by percentage a breakdown of our shipment volumes of all products produced in Russia by industry sector within the Russian market in 2012.

| Use by Industry | Metal Works, Wire Products Plants | Pipe Factories | Construction | Engineering | Railway Construction, Repair | Power Generation | Other Industries[1] |
|---|---|---|---|---|---|---|---|
| Semi-Finished Steel Products | 83.3% | 2.5% | 0.0% | 0.0% | 0.0% | 0.0% | 14.2% |
| Long Steel Products | 1.1% | 2.5% | 46.7% | 3.6% | 1.7% | 18.6% | 25.8% |
| Flat Steel Products | 1.4% | 3.6% | 19.9% | 7.6% | 0.1% | 18.8% | 48.6% |
| Forgings | 3.7% | 44.5% | 0.0% | 9.2% | 0.0% | 33.6% | 9.0% |
| Stampings | 0.1% | 0.0% | 0.0% | 12.5% | 70.7% | 4.3% | 12.4% |
| Wire Products | 0.2% | 0.5% | 23.7% | 3.2% | 0.6% | 30.0% | 41.8% |
| Steel Pipes | 0.0% | 0.0% | 25.6% | 0.0% | 0.0% | 66.1% | 8.3% |

(1) Including the defense, aerospace, petrochemical, textile, food and consumer goods sectors.

***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 partnerships 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-user customers, 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 and Eastern Europe, South-East Asia and the Middle East (in particular, Turkey and Saudi Arabia).

Mechel Service Global, through its subsidiaries, provides end-user customers in Russia, the CIS, Europe and Turkey 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 2012, most of our production facilities handled their domestic wholesales independently, and our export wholesales were marketed by Mechel Trading.

We also market and sell steel products sourced from, and supply our products as well as products we purchase on the market to, the related metallurgical plants. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

*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 83 storage sites in 68 cities throughout Russia to serve our end-user customers, which helps us to establish long-standing customer relationships by virtue of proximity to both production and customers. Mechel Service had 2,025 employees as of December 31, 2012.

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*Export sales*

Most of the exports in our steel segment are made to end users in non-sanctioned countries and minority to independent distributors and traders, which then sell our products to end users. Our subsidiary Mechel Trading has a branch office in Belgium and a representative office in Turkey.

Since 2010, we have been developing sales of high-quality rolled steel products to local end-user customers in Europe through Mechel Service Global s subsidiaries by means of establishment and launching of new centers for processing of high-quality rolled steel products to meet the requirements of our customers. 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.

*Distribution*

Rail transportation is used for most of 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 Russian and Ukrainian producers. 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 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 84.0% of overall domestic crude steel output in 2012, according to Metal Expert.

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

*Novolipetsk Metallurgical Works OAO* ( **NLMK** ) is Russia s largest steel manufacturer by volume, accounting for 18.0% of the volume of Russian commodity steel production in 2012. The company produces primarily flat products (hot-rolled and cold-rolled), including galvanized products. NLMK exported 70.7% of its products in 2012. 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 Stoylensky GOK. The company s steel facilities are located in Lipetsk, to the southeast of Moscow. NLMK also controls Maxi-Group OAO in Russia, which operates two steel production sites in the Sverdlovsk region: square billet and long steel producer Nizhneserginsky Hardware & Metallurgical Works and long steel and wire products producer Berezovsky Electro-Steel Works. These facilities are managed by the NLMK-Long steel OOO which had a 2.8% share in domestic commodity steel products output in 2012.

*Magnitogorsk Iron & Steel Works OAO* ( **MMK** ) is Russia s second largest steel manufacturer by volume, accounting for 17.5% of the volume of Russian commodity steel products output (including long products, flat products and semi-finished products) in 2012. MMK s product mix is comprised mostly of flat products, representing 83.8% of its commercial steel products output (including semis) in 2012. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 31.5% of its output in 2012. Its production facilities are located in Magnitogorsk in the southern Urals.

*Evraz Group S.A.*, whose Russian operations include the steel producers Nizhny Tagil Metallurgical Works OAO, ZapSib and Kuznetsky Metallurgical Works OAO, is Russia s third largest steel

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manufacturer by volume on a consolidated basis, accounting for 16.2% of Russia s total commodity steel products output in 2012. Evraz Group focuses on the production of long products, including rebars, wire rods and profiled rolled products (such as rails, beams and channels). Evraz Group also controls iron ore producers Kachkanar GOK OAO and Vysokogorsky GOK OAO and coking coal producer Yuzhkuzbassugol Coal Company OAO, and has an equity investment in Raspadskaya OAO, which produces coking coal.

*Severstal OAO* had a 14.9% share by volume of Russian commodity steel products output in 2012. The company specializes in flat products which constitute a significant part of its production. Severstal is the second-leading producer of flat products and controls 28.8% of Russia s total flat products output. Domestic sales accounted for 58.0% of Severstal s output in 2012, with the oil and gas industry and automotive sector as its leading customers. Severstal also 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.

*Metalloinvest Management Company OOO* ( **Metalloinvest** ), whose Russian assets consist of Oskolsky Electric Metallurgical Works OAO ( **OEMK** ) and Ural Steel OAO, had a 6.8% share of Russian commodity steel products output. OEMK produces only long products, and Ural Steel produces both long and flat products. Metalloinvest exported 66.2% of its commodity steel production in 2012. 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 Group and Metalloinvest produce primarily long products. Mechel is the second largest and most comprehensive producer of special steel and alloys in Russia, and accounted for 20.0% of total Russian special steel output by volume in 2012, 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 and Chermet.

In the Russian non-special steel long products category, our primary products and our market position by production volume in 2012 were as follows, according to Metal Expert:

*Reinforcement bar ( rebar )* In rebar, we compete in the 6-40 millimeters range. In 2012, the largest domestic rebar producers were Evraz Group (25.0%), Mechel (21.2%), NLMK-Long steel (18.5%) and Abinsk Electric Steel Works (7.3%).

*Wire rod* There were five major producers of wire rod in Russia in 2012: Mechel (34.2%), NLMK-Long steel (19.4%), Evraz Group (18.6%), MMK (14.8%) and Severstal (12.4%).

OEMK, an electric arc furnace 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 2012, producing 11.7% of the total Russian output by volume, and we had significant shares of Russian 2012 production volumes of stainless long products (13.3%), tool steel (20.7%) and high-speed steel (41.3%).

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The following tables set forth additional information regarding our 2012 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 Group S.A. | 5,423 | 31.4% |
| Mechel OAO | 3,004 | 17.4% |
| NLMK-Long steel OOO | 1,749 | 10.1% |
| MMK OAO | 1,740 | 10.0% |
| Severstal OAO | 1,104 | 6.4% |
| Metalloinvest Management Company OOO | 820 | 4.7% |
| Other | 3,453 | 20.0% |
| Total | 17,293 | 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 | 917 | 34.2% |
| NLMK-Long steel OOO | 521 | 19.4% |
| Evraz Group S.A. | 500 | 18.6% |
| MMK OAO | 398 | 14.8% |
| Severstal OAO | 333 | 12.4% |
| Other | 17 | 0.6% |
| Total | 2,686 | 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 (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Evraz Group S.A. | 1,819 | 25.0% |
| Mechel OAO | 1,542 | 21.2% |
| NLMK-Long steel OOO | 1,351 | 18.5% |
| Abinsk Electric Steel Works OOO | 535 | 7.3% |
| Revyakino Metal-Rolling Plant OAO | 420 | 5.8% |
| Other | 1,622 | 22.2% |
| Total | 7,289 | 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 | 25.3 | 54.7% |
| VMZ Red October | 19.3 | 41.8% |
| Other | 1.6 | 3.5% |
| Total | 46.2 | 100.0% |

Source: Metal Expert.

*Wire products*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel OAO | 674.0 | 36.1% |
| Severstal-Metiz OAO | 393.1 | 21.0% |
| MMK-Metiz OAO | 323.9 | 17.3% |
| NLMK-Long steel OOO | 281.8 | 15.1% |
| Evraz Group S.A. | 171.3 | 9.2% |
| Other | 23.8 | 1.3% |
| Total | 1,867.9 | 100.0% |

Source: Prommetiz, manufacturers data.

*Wire products Spring wire*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel OAO | 46.9 | 57.3% |
| Severstal-Metiz OAO | 26.5 | 32.4% |
| MMK-Metiz OAO | 8.4 | 10.3% |
| Total | 81.8 | 100.0% |

Source: Manufacturers data.

*Wire products High-tensile wire*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Severstal-Metiz OAO | 58.4 | 50.7% |
| Mechel OAO | 49.1 | 42.6% |
| MMK-Metiz OAO | 7.7 | 6.7% |
| Total | 115.2 | 100.0% |

Source: Manufacturers data.

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***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 2012, our steel-making operations used 6.2 million tonnes of iron ore feed, approximately 24% in the form of pellets and 76% in the form of sinter, and we internally sourced 8% of our total iron ore concentrate requirements during this period. Korshunov Mining Plant supplied our steel segment with 0.3 million tonnes of iron ore concentrate in 2012. In 2012, we purchased most of the remaining part of our iron ore feed from Russian suppliers such as Karelsky Okatysh, Mikhailovsky 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 2012, our production facilities used 4.5 million tonnes of coking coal concentrate (including 3.4 million tonnes used by Mechel Coke and 1.1 million tonnes used by Moscow Coke and Gas Plant), and 56% of total usage was sourced internally. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in our ferroalloys production. In 2012, we produced and internally used approximately 2.5 million tonnes of coke as well as produced and sold another approximately 1.1 million tonnes of coke to third parties.

We internally source all of our limestone requirements from our Pugachevsky Open Pit. In 2012, we supplied approximately 1,152.5 thousand tonnes of limestone to our steel production facilities.

We produce 58% of steel in basic oxygen furnaces. In steel-making, scrap is used in the composition of feedstock, and we are approximately 27% self-sufficient in this raw material, which amounts to 520 thousand tonnes of scrap, sourcing the balance from various scrap traders. We generate our own scrap supply through Mechel Vtormet, our scrap metal processing company.

In 2012, we used nickel sourced from Southern Urals Nickel Plant and Normetimpeks ZAO in the production of stainless and other special steels. In 2012, our production facilities used 4.4 thousand tonnes of nickel (including 2.2 thousand tonnes at Chelyabinsk Metallurgical Plant, 1.6 thousand tonnes at the Chelyabinsk branch of Urals Stampings Plant and 0.6 thousand tonnes at Izhstal) of which 83% was supplied by ferronickel produced at Southern Urals Nickel Plant and 17% was purchased from third parties.

In 2012, our production facilities used 29.3 thousand tonnes of ferrosilicon (including 26.2 thousand tonnes at Chelyabinsk Metallurgical Plant, 0.5 thousand tonnes at the Chelyabinsk branch of Urals Stampings Plant and 2.6 thousand tonnes at Izhstal), almost all of which was supplied by Bratsk Ferroalloy Plant.

In 2012, our production facilities used 15.0 thousand tonnes of ferrochrome (including 12.0 thousand tonnes at Chelyabinsk Metallurgical Plant and 3.0 thousand tonnes at Izhstal) of which 83% was supplied by Tikhvin Ferroalloy Plant and 17% was purchased from third parties.

Steel-making requires significant amounts of electricity to power electric arc furnaces and rolling mills and to convert coal to coke. In 2012, our steel and ferroalloys operations consumed approximately 4.5 billion kWh of electricity, of which 2.1 billion kWh was used at Chelyabinsk Metallurgical Plant, 2.4 billion kWh was used at other Russian facilities and 0.6 billion kWh was used at Mechel Campia Turzii, Mechel Targoviste, Laminorul Plant and Ductil Steel. Chelyabinsk Metallurgical Plant and Moscow Coke and Gas Plant have power co-generation facilities, which are operated by Mechel Energo. In 2012, these facilities produced 1.4 billion kWh of electricity, yielding 21% self-sufficiency overall for our group, which consumed 7.2 billion kWh of electricity in 2012. The balance was purchased in the wholesale and retail electricity markets. Aside from Southern Kuzbass Power Plant and Toplofikatsia Rousse, which ran on steam coal in 2012, 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 2012, we consumed 2,232.2 million cubic meters of blast furnace gas,

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563.3 million cubic meters of coke gas and 1,166.7 million cubic meters of natural gas. In 2012, Southern Kuzbass Power Plant and Toplofikatsia Rousse consumed 1.6 million tonnes of steam coal sourced from our own coal mining assets.

Large amounts of water are also required in the production of steel. Water serves as a resolvent, accelerator and washing agent. Water is used to cool the steel, 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 facilities recirculate a portion of water used for their production needs. For example, Chelyabinsk Metallurgical Plant sources 90.5% of its water needs from recycled water and the rest from a local river. Vyartsilya Metal Products Plant sources 100% of its water needs from a local river. Southern Urals Nickel Plant sources 34.3% of its water needs through recycling and 65.7% from a local river. To date, water consumption from local rivers has not resulted in any significant environmental issues, although we make no assurances that such issues will not arise in the future. The companies effect payments for the use of water resources and we believe their emissions and discharges are within the permissible limits.

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 long products, such as wire rods and rebar. 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.

In 2012, approximately 0.6% of our steel segment export sale revenues were derived from sales of steel products that were subject to import restrictions. We describe below the main applicable trade restrictions in our key markets.

*European Union*

Our sales to third parties in the E.U. from our Russian steel facilities were approximately $87.3 million or 1.3% of our total steel segment revenues in 2012. Through 2012, the Russian government and the E.U. had an export quota system in place set forth in the E.U.-Russia Steel Agreement whereby Russian exports to the E.U. were limited to certain stipulated quantities for each product category. Upon Russia s entry into the WTO in 2012, the E.U.-Russia Steel Agreement terminated and Russian steel products imported to the E.U. market should enjoy the free trade regime.

The E.U. has imposed antidumping duties on certain of our steel exports. In particular, an antidumping E.U. import duty in the amount of 50.7% was applicable to steel ropes and cables manufactured by our Beloretsk Metallurgical Plant until October 2007. After a review procedure conducted by the E.U. in October 2007, this duty was reduced to 36.2% and imposed for a period of five years. In October 2012, the European Commission initiated an expiry review of the antidumping measures applicable to imports of steel ropes and cables. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We face certain trade restrictions in the export of certain of our steel and ferroalloy products to the E.U.

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*United States*

The United States has a quota system in place with respect to imports of hot-rolled flat-rolled carbon quality steel and thick steel plate. Intergovernmental quota agreements provide for quotas and reference prices on Russian exports of these products to the United States. In 2012, the quota covered approximately 0.6% of our steel segment products exported from Russia to the U.S. The U.S. Department of Commerce has recently conducted a review of an agreement on carbon steel and re-confirmed the terms of the existing distribution system.

**Ferroalloys Segment**

Our ferroalloys segment produces and sells low-ferrous ferronickel, ferrochrome and ferrosilicon produced at Southern Urals Nickel Plant, Tikhvin Ferroalloy Plant and Bratsk Ferroalloy Plant, respectively. On December 19, 2012, production at Southern Urals Nickel Plant was halted due to the continued decline in demand for nickel on global markets and unfavorable forecast for its recovery in 2013. The following table sets forth our production volumes for each of our ferroalloys segment products.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Ferrosilicon | 85.2 | 82.7 | 89.9 |
| Ferrochrome | 83.5 | 97.7 | 81.4 |
| Nickel | 9.8 | 16.9 | 16.8 |

***Description of key products***

*Ferrosilicon.* Ferrosilicon is used in ferrous metallurgy as a deoxidizer or as an alloying element for production of electrotechnic, 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 from our Bratsk Ferroalloy Plant.

*Low-ferrous ferronickel.* Low-ferrous ferronickel is an alloy of iron and nickel used in production of corrosion-resistant and heat resistant steel grades. Southern Urals Nickel Plant offers low-ferrous ferronickel to export customers, as well as to a number of companies within Russia and within our group.

*Ferrochrome.* High-carbon ferrochrome is used in the iron industry to alloy construction steel and heat-resistant and stainless steels. We produce high-carbon ferrochrome at our Tikhvin Ferroalloy Plant and we use it internally within our group and export and sell within Russia.

***Mining and manufacturing processes***

*Nickel ore.* Both the Sakhara and Buruktal mining operations run by our Southern Urals Nickel Plant are typical of Russian open pit mines of their size. The weathered lateritic ore and overburden (the layers of soil covering the ore-bearing stratum) are loaded by electric and diesel shovels and dragline into haul trucks without any drilling or blasting. The ore is stockpiled, reclaimed and then loaded into railcars for shipment to Southern Urals Nickel Plant. Overburden waste is hauled to dumping locations inside the mined-out pits whenever possible or placed in dumps adjacent to the pit.

*Low-ferrous ferronickel.* Nickel ores from both mines are transported by rail to our nickel production plant in Orsk, which lies east of the southern extremity of the Ural Mountains, close to the border with Kazakhstan. At this plant, ores are mixed in a ratio of 70% of Buruktal ore and 30% of Sakhara ore and sintered in sintering machines. Sinter with the addition of coke, sulfur pyrite and limestone is smelted in shaft furnaces that produce

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matte. This matte is then divided into converter matte and waste slag in horizontal converters. Converter matte is processed into nickel monoxide and nickel monoxide is further processed into ferronickel. Ferronickel is shipped by rail transportation from Orsk station, as well as by motor transport, to our Chelyabinsk Metallurgical Plant, to other Russian customers and for international delivery.

*Ferrosilicon.* Ferrosilicon is produced in electric arc furnaces 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.

*Ferrochrome.* High-carbon ferrochrome is produced in electric arc furnaces in a continuous ore smelting process. Chrome and iron are reduced from chrome ore concentrate with coke carbon, with over 7% of the carbon being dissolved in this alloy. High-carbon ferrochrome is discharged from the furnace periodically. After cooling, metal ingots are split and sorted into various commercial fractions.

***Nickel ore and nickel production***

Southern Urals Nickel Plant produces nickel in Orsk in the Orenburg region, in the southern part of Russia s Ural Mountains, and operates two open pit nickel ore mines, Sakhara and Buruktal. The Sakhara mine is located east of the Ural Mountains in the Chelyabinsk region, about 370 kilometers north of Orsk. The Buruktal mine is located east of the southern tip of the Ural Mountains, in the Orenburg region, close to the border with Kazakhstan. It is located 230 kilometers east of Orsk. Both the Buruktal and Sakhara mines have railway spurs connected to the Russian rail system, which is controlled by Russian Railways. We acquired Southern Urals Nickel Plant in 2001.

The table below sets forth the subsoil licenses used by our nickel mines and the expiration dates thereof.

| License Area | License Holder | License Expiry Date | Status[1] | Area (sq. km) | Year Production Commenced | Surface Land Use Rights |
|---|---|---|---|---|---|---|
| Buruktal | Southern Urals Nickel Plant | December 2013 | In production | 11.9 | 1969 | Lease, ownership |
| Sakhara | Southern Urals Nickel Plant | April 2013 | Conservation | 2.2 | 1994 | Lease |

(1) In production refers to sites that are currently producing nickel ore. Conservation refers to sites where no mining activity is conducted, measures for mine conservation and land reclamation are being taken.

The table below summarizes our nickel ore and nickel production for the periods indicated.

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| Mine | Tonnes | Grade (% Ni) | Tonnes | Grade (% Ni) | Tonnes | Grade (% Ni) |
| | | | (In thousands of tonnes)[1] | | | |
| Buruktal | 1,031.5 | 1.04% | 2,063.4 | 1.04% | 2,014.3 | 1.06% |
| Sakhara | 528.7 | 1.02% | 926.3 | 1.02% | 845.3 | 1.00% |
| Total ore production | 1,560.2 | 1.03% | 2,989.7 | 1.03% | 2,859.6 | 1.04% |
| Nickel production | 9.8 | | 16.9 | | 16.8 | |

(1) Volumes are reported on a wet basis.

***Chrome ore and silicate nickel ore production***

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

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Oriel Resources holds two licenses to mine chrome ore at the Voskhod deposit in the Aktyubinsk region and silicate nickel ore at the Shevchenko deposit in the Kustanay region, and owns a processing plant located near the Voskhod underground mine.

Voskhod is located in the Chrometau district of the Aktyubinsk region 110 kilometers east of Aktobe and seven kilometers northeast of Chrometau. The site is accessed by road from Chrometau, which lies on the highway from the regional center of Aktobe. Associated chrome ore mining commenced at the Voskhod underground mine in December 2008 and ore production in commercial volumes commenced in July 2009. The mining plant is designed to reach output of 1.3 million tonnes of chrome ore and 0.6-0.7 million tonnes of chromite ore concentrate per annum. Chrome ore concentrate from Voskhod is used in the Tikhvin Ferroalloy Plant in Russia, which is another asset acquired in 2008 as part of Oriel Resources. The subsoil license relating to the chrome deposit at Voskhod was issued by the Government of Kazakhstan in 2004 for a period of 25 years.

The Shevchenko deposit of silicate nickel ore is located in Kazakhstan s Kustanay region and we plan to produce nickel ore there using the in-situ leaching method for further processing into nickel-containing marketable products. The subsoil license relating to the silicate nickel ore deposit at Shevchenko 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 the subsoil licenses used by our chrome ore and silicate nickel ore properties and the expiration dates thereof.

| License Area | License Holder | License Expiry Date | Status | Area (sq. km) | Year Production Commenced | Surface Land Use Rights |
|---|---|---|---|---|---|---|
| Voskhod | Voskhod-Oriel | October 2029 | In production | 1.54 | 2008 | Lease |
| Shevchenko | Kazakhstansky Nickel Mining Company | March 2017 | Feasibility study | 103.8 | n/a | Lease |

In 2012, we produced 736.1 thousand tonnes of chrome ore and 379.0 thousand tonnes of chromite ore concentrate.

***Quartzite production***

Bratsk Ferroalloy Plant holds the license for the exploration and mining of the Uvatskoye deposit of quartzite and quartzite sandstones, a raw material 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 southern area of the Uvatskoye deposit and registered the quartzite reserves with governmental authorities. In 2012, we conducted a series of preparatory works aimed at improving transport infrastructure for the raw materials supply to our Bratsk Ferroalloy Plant. In 2013, we plan to commence quartzite mining on the southern area of the Uvatskoye deposit. In addition, we continue the exploration of the other two areas at the Uvatskoye deposit, which is scheduled for completion in 2014.

The table below sets forth the subsoil license held in respect of our quartzite project and the expiration date thereof.

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

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***Ferroalloys production facilities***

*Southern Urals Nickel Plant*

Southern Urals Nickel Plant includes a sinter plant equipped with five sintering machines; a melting workshop equipped with eight shaft furnaces and 14 thirty-tonne converters; and a roasting workshop equipped with two electric arc furnaces with a capacity of 12 MW each. The plant can produce up to 17,500 tonnes per year of low-ferrous ferronickel in pure nickel equivalent.

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

| Production Area | Capacity in 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Low-ferrous ferronickel | 17.1 | 57.2% | |

Southern Urals Nickel Plant produced 9,782 tonnes of nickel in 2012.

*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 for manufacturing carbon and stainless steel deoxidizers of most kinds of steel grades or alloying elements for production of insulating, acid-proof and heatproof steel grades, or pig iron modifier, as well as reducing agents for production of nonferrous metals and alloys. Approximately 5-6 kg of ferrosilicon is used in every tonne of steel produced. Ferrosilicon is a primary raw material for alloyed steels produced by Chelyabinsk Metallurgical Plant. We acquired Bratsk Ferroalloy Plant in 2007.

The main production facilities of the plant include four ore-thermal ovens with a capacity of 25 megavolt-amperes ( **MVA** ). In October 2010, we signed contracts with Siberian Plant of Electrothermal Equipment (Sibelectrotherm JSC, Novosibirsk) for the supply of four ore-thermal ovens with the capacity of 33 MVA each to replace the existing ovens. After the project s completion Bratsk Ferroalloy Plant s production capacity will increase by 30% and its power consumption will be reduced by 10-13%. In March 2012, one of four new ore-thermal ovens was launched and the trial smelting of ferrosilicon was conducted. We intend to commence commercial operations of the oven in the second quarter of 2013.

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 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Ferrosilicon | 87.6 | 97.2% | |

Bratsk Ferroalloy Plant produced 85,182 tonnes of ferrosilicon in 2012.

*Tikhvin Ferroalloy Plant*

Tikhvin Ferroalloy Plant is a modern metallurgical enterprise, which specializes in the production of high-carbon ferrochrome from chrome ore for use predominantly in the production of stainless steel. Recovery of chrome from chrome ore occurs by the agency of metallurgical coke in the presence of a quartzite flux. The plant is situated in the small town of Tikhvin, 200 kilometers southeast of St. Petersburg, Russia. It comprises four ore-smelting open electric AC furnaces with gasproof enclosure and a total capacity of 22.5 MVA each. For effective

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cleaning of a steam-and-gas mixture, four dry gas cleaning plants with pulsed regeneration are used at the plant. The Tikhvin Ferroalloy Plant s annual capacity is 140,000 basic tonnes of high-carbon ferrochrome. The plant commenced production in April 2007 using imported chrome ore. Since April 1, 2009, the plant has moved to high-carbon ferrochrome production using only concentrate from the Voskhod chrome processing plant. The plant consumes 330,000 tonnes of chromite ore concentrate per annum. In February 2012, the workshop for production of briquettes out of small-fraction chrome ore concentrate was launched at Tikhvin Ferroalloy Plant. The design capacity of the workshop is 5.5 thousand tonnes of chrome briquettes per month. Tikhvin Ferroalloy Plant is certified under environmental protection standard ISO 14001.

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

| Production Area | Capacity in 2012 | Capacity Utilization Rate in 2012 | Planned Increase (2013-2015) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Ferrochrome (60% basic chrome content in the alloy) | 125.0 | 76.6% | |

Tikhvin Ferroalloy Plant produced 83.5 thousand tonnes of ferrochrome with 68.8% chrome content in the alloy in 2012.

***Sales of ferroalloy products***

The following table sets forth our revenues by primary ferroalloys segment product categories (including as a percentage of total ferroalloys segment revenues) for the periods indicated. Ferroalloys segment sales data presented in Ferroalloys Segment do not include intersegment sales.

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| Revenues | Amount | % of Revenues | Amount | % of Revenues | Amount | % of Revenues |
| | (In millions of U.S. dollars, except for percentages) | | | | | |
| Nickel[(1)] | 165.7 | 39.8% | 255.2 | 53.7% | 251.6 | 55.3% |
| Ferrosilicon | 65.6 | 15.7% | 84.7 | 17.8% | 91.7 | 20.1% |
| Ferrochrome | 131.3 | 31.5% | 105.7 | 22.3% | 93.6 | 20.6% |
| Other | 54.2 | 13.0% | 29.6 | 6.2% | 18.3 | 4.0% |
| Total | 416.7 | 100% | 475.2 | 100% | 455.2 | 100% |

(1) Sales of nickel contained in ferronickel and converter matte.

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

| Region[(1)] | 2012 | 2011 | 2010 |
|---|---|---|---|
| Russia | 30.4% | 27.8% | 24.2% |
| Other CIS | 2.5% | 3.0% | 1.3% |
| Europe | 49.0% | 56.2% | 61.4% |
| Asia | 12.1% | 7.6% | 8.8% |
| Middle East | 0.4% | 0.0% | 0.1% |
| United States | 5.4% | 5.1% | 4.0% |
| Other | 0.2% | 0.3% | 0.2% |
| Total | 100% | 100% | 100% |

(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.

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In 2012, our ferroalloys segment sales outside of Russia were principally to Europe. Sales in Europe accounted for 49.0% of our total ferroalloys segment sales. The following table sets forth information about the five largest customers of our ferroalloys segment products, which together accounted for 43.2% of our ferroalloys segment sales in 2012.

| Customer | % of Total Ferroalloys Segment Sales | Product | % of Total Products Sales |
|---|---|---|---|
| A&M Trading | 11.8% | Nickel | 20.6% |
| | | Chrome | 11.4% |
| Stratton Metal Resources | 10.7% | Nickel | 27.0% |
| Outokumpu Rossija Oy. | 9.1% | Nickel | 22.9% |
| Scanalloys Ltd. | 6.0% | Chrome | 18.5% |
| | | Ferrosilicon | 0.9% |
| Mitsui & Co. | 5.6% | Chrome | 14.4% |
| | | Ferrosilicon | 6.9% |

The following table sets forth information on our domestic and export sales of our primary ferroalloy 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 24 to the consolidated financial statements.

| Products | 2012 | 2011 | 2010 |
|---|---|---|---|
| | (In millions of U.S. dollars, except for percentages) | | |
| Nickel[(1)] | 165.7 | 255.2 | 251.6 |
| Domestic Sales | 10.9% | 7.7% | 7.4% |
| Export | 89.1% | 92.3% | 92.6% |
| Ferrosilicon | 65.6 | 84.7 | 91.7 |
| Domestic Sales | 80.9% | 87.3% | 73.8% |
| Export | 19.1% | 12.7% | 26.2% |
| Ferrochrome | 131.3 | 105.7 | 93.6 |
| Domestic Sales | 5.7% | 8.7% | 7.8% |
| Export | 94.3% | 91.3% | 92.2% |
| Other | 54.2 | 29.6 | 18.3 |
| Domestic Sales | 25.8% | 34.5% | 39.3% |
| Export | 74.2% | 65.5% | 60.7% |
| Total | 416.7 | 475.2 | 455.2 |
| Domestic Sales | 22.2% | 23.8% | 22.1% |
| Export | 77.8% | 76.2% | 77.9% |

(1) Sales of nickel contained in ferronickel and converter matte.

***Marketing and distribution***

*Domestic sales*

Nickel is supplied to the Russian domestic market, primarily within our group. Only 10.9% of total nickel revenues were received from domestic sales in 2012.

In 2012, ferrosilicon was sold to Russian domestic consumers such as Severstal, TMZ TD, MMK, SMR and EvrazHolding, which together accounted for 57.8% of the total ferrosilicon sales by revenue and 9.1% of the total ferroalloys segment revenues.

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Metallurg-Trust, Zlatoust Metallurgical Works, Metallurgicheskiy zavod Petrostal, Severstal and OEMK were our major domestic ferrochrome customers in 2012, which together accounted for 5.5% of the total ferrochrome sales and 1.7% of the total ferroalloys segment revenues.

Domestic sales are conducted directly by our production facilities.

We supply ferroalloy products to the Russian market under annual contracts with monthly adjustment of prices and volumes. Price adjustments are based on the domestic spot market prices.

*Export sales*

In 2012, ferronickel export sales were primarily delivered to the following customers: Stratton Metal Resources, Outokumpu Rossija Oy, A&M Trading, Glencore International AG and MBR Metals, which together accounted for 89.1% of our total ferronickel sales and 35.4% of our total ferroalloys segment revenues. Prices are settled on the basis of nickel prices quoted by the London Metal Exchange ( **LME** ), less a certain discount. The ferronickel is delivered by railway from Southern Urals Nickel Plant to either the port of St. Petersburg or to the Russian-Finnish border.

In 2012, ferrosilicon export sales were primarily delivered to the following customers: ACTS Trading Corporation, Mitsui & Co., Daitoku Kogyo Co., Scanalloys Ltd. and Global Commerce, which together accounted for 19.0% of our total ferrosilicon sales and 3.0% of our total ferroalloys segment revenues. Deliveries to Japanese customers were effected on CIF delivery terms (including transportation by railway, handling in ports of Vanino and Vostochny and use major container lines to major Japanese ports and insurance). We mostly sell ferrosilicon on spot basis.

In 2012, our five largest export ferrochrome customers were Scanalloys Ltd., Mitsui & Co., A&M Trading, SiderAlloys and Minmetals Xingjiang, which together accounted for 60.4% of our total ferrochrome sales and 19.0% of our total ferroalloys segment revenues. Ferrochrome was delivered mainly by railway to the port of St. Petersburg, and small tonnages were delivered to Eastern Europe by trucks. We mostly sell ferrochrome on spot basis.

***Market share and competition***

According to Metal Expert, Mechel is the third largest Russian producer of ferrosilicon and the third largest producer of ferrochrome by volume. In 2012, we had a 12.6% market share by volume of Russian ferrosilicon production and a 17.9% market share by volume of Russian ferrochrome production.

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

*Kuznetsk Ferroalloys OAO* ( **Kuznetsk Ferroalloys** ) is the largest Russian ferrosilicon producer, with a 46.5% market share by production volume in 2012. It controls Yurginsk Ferroalloys Plant OAO. Kuznetsk Ferroalloys produces microsilica and quartzite. It is primarily export-oriented, having exported 96.9% of its ferrosilicon production volume in 2012.

*Serov Ferroalloys Plant OAO* ( **Serov** ) is the largest Russian ferrochrome producer, with a 42.9% market share by production volume in 2012. It also produces ferrosilicon, having a 6.4% production share in 2012. The plant is controlled by the industrial group ENRC, which is one of the largest ferrochrome producers in the world, according to CRU. Serov also produces ferrosilicochrome. Serov exported 83.0% of its ferrochrome production volume in 2012, and almost all of the ferrosilicon it produced in 2012 was supplied domestically.

*Chelyabinsk Electro-Metallurgical Plant OAO* ( **ChEMK** ) is the second largest Russian ferrochrome producer, with a 38.2% market share by production volume in 2012. It is also the second largest

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ferrosilicon producer with a 19.2% production share in 2012. In addition it produces silicomanganese and silicocalcium. ChEMK exports most of its production. In 2012, it exported 94.7% and 67.7% by volume of its ferrochrome and ferrosilicon production, respectively.

The following tables set forth additional information regarding our 2012 market shares in Russia for certain ferroalloy products.

*Ferroalloys Ferrosilicon*

| Manufacturer | Region | Production | Market Share by Production Volume, % |
|---|---|---|---|
| | | (In thousands of tonnes, except for percentages) | |
| Kuznetsk Ferroalloys OAO | Kemerovo | 303.4 | 46.5% |
| Chelyabinsk Electro-Metallurgical Plant OAO | Chelyabinsk | 125.4 | 19.2% |
| Bratsk Ferroalloy Plant OOO | Irkutsk | 82.2 | 12.6% |
| Yurginsk Ferroalloys Plant OAO | Kemerovo | 81.1 | 12.4% |
| Serov Ferroalloys Plant OAO | Sverdlovsk | 41.8 | 6.4% |
| Novolipetsk Metallurgical Plant OAO | Lipetsk | 18.4 | 2.8% |
| Total | | 652.3 | 100.0% |

Source: Metal Expert.

*Ferroalloys Ferrochrome*

| Manufacturer | Region | Production | Market Share by Production Volume, % |
|---|---|---|---|
| | | (In thousands of tonnes, except for percentages) | |
| Serov Ferroalloys Plant OAO | Sverdlovsk | 176.3 | 42.9% |
| Chelyabinsk Electro-Metallurgical Plant OAO | Chelyabinsk | 157.2 | 38.2% |
| Tikhvin Ferroalloy Plant OOO | Leningrad | 73.8 | 17.9% |
| Klyuchevsk Ferroalloys Plant OAO | Sverdlovsk | 3.9 | 1.0% |
| Total | | 411.2 | 100.0% |

Source: Metal Expert.

***Mineral reserves (ferroalloys)***

*Chrome ore*

Our chrome 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 chrome ore reserves consist of proven and probable reserves.

IMC has independently assessed our chrome ore assets by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine plans relating to productivity, production, operating costs, capital expenditures and revenues. In IMC s view, all chrome ore reserves estimates have been substantiated by evidence obtained by it in site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by us to IMC.

IMC confirms that our chrome ore reserves estimates are presented in accordance with JORC and meet the standards set by the SEC in its Industry Guide 7. Chrome ore reserve estimates thus represented are referred to as JORC Ore Reserves.

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Despite IMC s review, the chrome 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 chrome 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 chrome 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.

In previous years, we reported our reserves under the standards of United States Geological Survey Circular 831 ( **USGS** ). Since 2012, we have begun reporting our chrome ore reserves and resources under the JORC Code. Both USGS and JORC Code comply with the requirements set out in the SEC Industry Guide 7. Given the global nature of the markets in which we operate and the broad international acceptance of JORC reporting standards, we believe that reporting our reserves and resources under the JORC Code provides users of our disclosures with more readily-understandable and transparent information.

The subsoil license relating to the chrome deposit at Voskhod was issued by the Government of Kazakhstan in 2004 for a period of 25 years.

As of December 31, 2012, Voskhod had total proven and probable reserves of 20.3 million tonnes, including 18.2 million tonnes of proven and 2.1 million tonnes of probable reserves at an average grade of 30.4% $Cr_2O_3$ with projected recovery of rate of 86.2%. In estimating our reserves we use an average contract price of $252 per tonne of chrome ore concentrate and currency conversions are carried out at average official exchange rates of the Central Bank of Kazakhstan.

*Nickel ore*

The subsoil licenses for our nickel mineral deposits are issued for defined boundaries and expire in December and April 2013 for Buruktal and Sakhara, respectively.

As of December 31, 2012, our nickel deposits ceased to meet the criteria for recognition of proven and probable reserves as we considered uneconomic the extraction of nickel from our Buruktal and Sakhara mines due to the downturn in the nickel price in 2012.

We will continue to evaluate the economic viability of nickel extraction from these mines and if the market conditions improve there will be the potential to state proven and probable reserves of nickel in the future periods.

Based on Russian law and practice, as evidenced by 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. License extension is being granted subject to the licensee not being 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 intend to extend our licenses for nickel 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.

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***Trade restrictions***

In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the E.U. of ferrosilicon produced by our 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. We cannot predict the outcome of this review and whether the antidumping duty will be renewed.

**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 generation facilities at Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant, Urals Stampings Plant and Zlatoust Metallurgical Plant with installed capacity of 229 MW, 30 MW, 3.5 MW and 6 MW, respectively, and a power distribution company, Kuzbass Power Sales Company. Our subsidiary Mechel Energo manages our power business. In addition, we hold a 100% stake in Toplofikatsia Rousse, a power plant in Bulgaria. In December 2012, we signed an agreement to sell our stake in Toplofikatsia Rousse and expect the transaction to close in May 2013. See Item 3. Key Information Recent Developments Disposal of Toplofikatsia Rousse.

Below is a brief description of the power facilities we currently own.

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| | | (In million kWh) | |
| Electricity | 4,272.6 | 3,920.9 | 4,019.6 |

***Southern Kuzbass Power Plant***

The Southern Kuzbass Power Plant is located in Kaltan in the Kemerovo region, which is south of Russia s coal-rich Kuzbass district. It has a total installed capacity of 554 MW and installed heat capacity of 506 Gcal/h. The electricity output of the plant for the year ended December 31, 2012 was 2,119.7 million kWh. The heat power generated by the plant for the year ended December 31, 2012 was 771.1 thousand Gcal. 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 2012, it consumed 1.4 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 2012 (million kWh) |
|---|---|---|---|---|
| VK-50-2 LMZ | 1950 | April 1951 | 53 | 323.3 |
| VK-50-2 LMZ | 1950 | November 1951 | 53 | 346.4 |
| VK-50-2 LMZ | 1950 | August 1952 | 53 | 332.8 |
| VK-50-2 LMZ | 1952 | February 1953 | 53 | 24.6 |
| T-115-8,8 LMZ | 1996 | December 2003 | 113 | 542.4 |
| T-88/106-90 LMZ | 1953 | July 1954 | 88 | 49.5 |
| VK-50-2 LMZ | 1954 | December 1954 | 53 | 142.4 |
| T-88/106-90 LMZ | 1953 | September 1956 | 88 | 358.3 |
| Total | | | 554 | 2,119.7 |

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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 Kaltan and Osinniki.

***Kuzbass Power Sales Company***

Kuzbass Power Sales Company is the largest power distribution company in the Kemerovo region. Its marketed power volume in 2012 amounted to 10.8 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 three regional agents.

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 separate business units in the cities of Izhevsk and Chebarkul, as well as branches in the cities of Mezhdurechensk, Chelyabinsk, Beloretsk and Vidnoye. Mechel Energo also performs the functions of the sole executive body of its subsidiaries: Southern Kuzbass Power Plant and Kuzbass Power Sales Company.

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, of the cities of Vidnoye, Chelyabinsk, Chebarkul, Beloretsk, Guryevsk, Mezhdurechensk, Myski and Izhevsk.

Mechel Energo has co-generation facilities and operates using mainly blast furnace gas and coke oven 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 6.7 billion kWh of electricity and 4.7 million Gcal of heat energy in 2012.

**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. In particular, in view of our conservative outlook with respect to the financial and commodity markets development for 2013, we have reduced our planned capital expenditures for 2013 by approximately 56% as compared to 2012. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have a substantial amount of outstanding indebtedness and 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.

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Our capital investment program includes capital spending of up to $1.6 billion for the three-year period of 2013-2015. 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 $1.1 billion in mining, approximately $280.7 million in steel, approximately $23.9 million in ferroalloys and approximately $34.3 million in power segment. 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. Attracting debt financing for our capital expenditures on commercially reasonably terms may be particularly challenging given our current levels of indebtedness. We may be limited to obtaining financing on a project finance basis which may impose more 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 $281.5 million to the development of the Elga coal deposit in 2013-2015. Investments in Southern Kuzbass Coal Company will amount to $566.0 million. We will invest approximately $133.9 million in 2013-2015 for increasing coal production at Sibirginskaya Underground. In the iron ore business, we will invest approximately $77.9 million in Korshunov Mining Plant.

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 aimed at increasing rolling capacity to 1.1 million tonnes and decreasing the proportion of lower-value semi-finished product sales by increasing the production of high-quality rolled steel products and rails. The project is planned to be completed in 2013.

The table below sets forth the major items of our capital expenditures by segment and facility for the three-year period of 2013-2015 (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 | 400 | 2013 | 2015 |
| ***Yakutugol*** | | | | |
| 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 | 2,100 | 2009 | 2015 |
| ***Southern Kuzbass Coal Company*** | | | | |
| Increase of coal production at Sibirginskaya Underground | Increase production output to 2.4 million tonnes per annum | 250 | 2009 | 2015 |
| **Steel Segment** | | | | |
| Maintenance expenditures | Maintaining current output capacity | 104 | 2013 | 2015 |
| ***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 | 715 | 2009 | 2013 |
| Reconstruction of oxygen-converter production | Increase of cast weight to 152 tonnes | 90 | 2009 | 2017 |
| **Ferroalloys segment** | | | | |
| Maintenance expenditures | Maintaining current output capacity | 19 | 2013 | 2015 |

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| | 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) | | |
| **Power segment** | | | | |
| Maintenance expenditures | Maintaining current output capacity | 33 | 2013 | 2015 |
| **Transport division** | | | | |
| Maintenance expenditures | Maintaining current output capacity | 17 | 2013 | 2015 |
| ***Port Posiet*** | | | | |
| Technical modernization of Port Posiet | Increase of cargo-handling capacity to 9.0 million tonnes per annum | 149 | 2009 | 2014 |
| **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 | 174 | 2009 | 2013 |

(1) We estimate that approximately $0.6 billion of the aforementioned planned expenditures for these projects were made within 2012. In 2012, we spent $0.9 billion in total for 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 (seven employees), a Production and Technical Department at Mechel Mining Management (fifteen employees) and a Production and Technical Department at Mechel Ferroalloys Management (three employees). In December 2008, we established Mechel Engineering with a headcount of 426 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 three 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, Southern Urals Nickel Plant and Urals Stampings Plant have specialized research divisions with a total of 157 employees involved in the improvement of existing technologies and products.

Our research and development expenses in the years ended December 31, 2012, 2011 and 2010 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 the Russian law, existing collective agreements, loan agreements or other undertakings. Our Russian facilities have various compulsory insurance policies: liability of the owner of a hazardous facility for injury in an accident at a hazardous facility, legal liability for pollution, third-party liability motor vehicle insurance and other forms of insurance. Some of

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our facilities provide their workers with medical insurance and accident and health insurance in accordance with existing collective employment agreements. In addition, almost all of our Russian facilities have motor vehicle insurance, property insurance (real property and machinery insurance, goods), third-party liability insurance and cargo.

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 insurance, pollution legal liability insurance, employer liability etc. Furthermore, some of our international production facilities also carry insurance coverage for their property (real property and machinery insurance, goods), liability (third-party liability, professional and product liability), cargo (including freight insurance), as well as medical insurance and accident and health 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 discharge of coal and coke dust and other pollutants and hazardous materials into atmosphere, discharge of polluted waste water into the environment and generation of waste and hazardous materials that need to be disposed of or reused without serious damage to the environment.

Our environmental policy has the following key components:

- implement formal environmental management systems that are aligned with applicable international standards;
- identify, assess, monitor, control and manage significant environmental risks;
- establish clear and meaningful environmental objectives and targets aimed at continuous improvement;
- implement, maintain and regularly test emergency response plans;
- identify potential environmental emergencies; and
- comply with all applicable laws and regulations and when practicable, strive to exceed those requirements.

We have been developing and implementing environmental programs at all of our mining, steel, ferroalloys 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 allocation 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 discharge of pollutants into the environment;

the handling of hazardous waste;

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storage and use of explosive, flammable and/or hazardous materials;

operation of industrial facilities featuring fire and explosion hazard (including mining and surveying activities);

fire control and security;

medical operations;

mine surveying;

loading and unloading operations;

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, set forth the activities subject to licensing and establish procedures for issuing licenses.

Under Licensing Law, generally, licenses may be issued for 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, but usually subject to prior compliance with 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 the Federal Agency for Subsoil Use regarding subsoil abuse, damage to the subsoil and general environmental issues. The Federal Agency for Subsoil Use 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 the Federal Agency for Subsoil Use with respect to an identified mineral deposit. In addition to 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

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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, assess 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 2012, we incurred mineral extraction taxes in the amount of $63.7 million, which is 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 the Federal Agency for Subsoil Use. While such auction or tender 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. Exact mining allotment boundaries are established upon the approval of a development plan by state mining supervision authorities and an environmental examination committee. These exact boundaries are certified in a mining allotment plan issued to the license holder. The exact mining allotment boundaries are incorporated into the license as an integral part. Pursuant to Resolution No. 118 of the Government of the Russian Federation dated March 3, 2010, a special commission comprised of representatives from the Ministry of Natural Resources and Ecology, the Federal Agency for Subsoil Use, 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. Prior to January 2000, exploration licenses could have a maximum term of five years, extraction licenses a maximum term of 20 years, and combined exploration, assessment and extraction licenses a maximum term of 25 years. After amendments to the Subsoil Law in January 2000 and in August 2004, exploration licenses still have a maximum term of five years; 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; and combined exploration, assessment and extraction licenses can be issued for the term of

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the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licenses issued prior to January 2000, but permit licensees to apply for extensions of such licenses for the term of the expected operational life of the field in accordance with the amended Subsoil Law. The term of a subsoil license runs from the date the license is registered with the Federal Agency for Subsoil Use.

***Issuance of licenses***

Subsoil licenses are issued by the Federal Agency for Subsoil Use. 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 Russian 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 the Federal Agency for Subsoil Use to amend the license. In addition, as we have seen in practice, a subsoil licensee may be required to prepare and provide to the authority amended technical documentation and development plan of the deposit under the license justifying the requested extension. The costs associated with the license extension are generally not substantial and mainly relate to preparing amendments to the technical documentation and development plan of the subsoil plot. Application to extend the period of subsoil license is typically made six months before its expiration.

To the best of our knowledge, derived from publicly available information, the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license consider the following: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license. In particular, we are aware of a number of mining companies which have been granted an extension of their Russian mining licenses for the past few years. In addition, 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 mining and other permits or fail to comply with the terms of our subsoil licenses

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and mining and other permits. See also Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Weaknesses relating to the Russian legal system and legislation create an uncertain investment climate.

***Transfer of licenses***

Licenses may be transferred only under certain limited circumstances that are set forth in the Subsoil Law, including the reorganization or merger of the licensee or in the event that an initial licensee transfers its license to a newly established legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or extraction activity covered by the transferred license.

***Maintenance and termination of licenses***

A license granted under the Subsoil Law is accompanied by a licensing agreement. The law provides that there will be two parties to any subsoil licensing agreement: the relevant state authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil.

Under a licensing agreement, the licensee makes certain environmental, safety and extraction commitments. For example, the licensee makes an extraction commitment to bring the field into extraction by a certain date and to extract an agreed-upon volume of natural resources each year. The licensing agreement may also contain commitments with respect to the social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a license are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfillment of a license s conditions is a major factor in the good standing of the license. If the subsoil licensee fails to fulfill the license s conditions, upon notice, the license may be terminated or the subsoil user s rights may be restricted by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or extraction output as set forth in a license, it may apply to amend the relevant license conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for license termination. A licensee can be fined or the license can be suspended or terminated for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A license may also be terminated for violations of material license terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for limitation or termination of licenses. Consistent underproduction and failure to meet obligations to finance a project would also be likely to constitute violations of material license terms. In addition, certain licenses provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for terminating the license.

Rosprirodnadzor routinely conducts scheduled and unscheduled inspections for compliance by subsoil users with the terms of their licenses and reports violations to the Federal Agency for Subsoil Use. The Federal Agency for Subsoil Use 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 the Federal Agency for Subsoil Use 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

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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 one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of perpetual use; or (3) lease.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, 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, with certain exceptions, requires 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 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 draft amendments are actively being discussed by industry representatives and other interested parties such as the Russian Union of Industrialists and Entrepreneurs. These amendments have not yet been submitted to the Russian legislative bodies, however, several draft documents are already being considered by the Russian government. The amendments intend to improve the distribution of functions among state environmental agencies at both the federal and regional levels, as well as to strengthen liability for companies non-compliance with environmental laws and regulations.

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Among other things, the draft amendments contemplate that charges for environmental impact exceeding regulatory thresholds (norms) may be increased by twenty five times the current amounts commencing on January 1 of the year next to the year when the adopted draft amendments are published and may be increased by one hundred times the current amounts after three years from the date when the draft amendments enter into force. Furthermore, fines for environmental violations may be increased by up to 20 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, clean-up 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 operation 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, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain temporary approval for exceeding these statutory limits from Rosprirodnadzor, depending on the type and scale of any environmental impact. Such approval is conditional upon the development by the company of a plan for reducing of the emissions or disposals to the standard limits which must be cleared with Rosprirodnadzor. The emission reduction plan is generally required to be implemented within a specific period. If, by the end of that period, a company s discharges of pollutants are still in excess of the statutory limits, a new emission reduction plan must be submitted to Rosprirodnadzor for approval.

Fees for the discharge per tonne of each contaminant into air and water and fees for waste disposal are established by governmental authorities. These fees are based on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved temporary limits, and the highest fees are imposed for pollution exceeding such limits (above-limit fees). Payments of above-limit fees for violation of environmental legislation do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2012, in Russia, we incurred above-norms/above-limit fees and penalties in the amount of approximately $3.9 million.

***Environmental expert review***

According to the Federal Law On Environmental Expert Review dated November 23, 1995, as amended (the **EER Law** ), environmental expert review is a process of verifying compliance of business or operational documentation with environmental standards and technical regulations established pursuant to the EER Law for the purpose of preventing a negative environmental impact of such business or operations. The EER Law provides for the main principles for conducting environmental expert review and for the type of documentation which is subject to such review.

In relation to our operating companies, all documentation underlying the issuance of some of our licenses, in particular licenses issued by federal authorities to conduct activities related to collection, usage, decontamination, transportation and disposal of hazardous wastes, are subject to environmental expert review.

Review of documentation related to capital construction is regulated under the Urban Development Code. The Urban Development Code provides for governmental inspection to verify the compliance of project

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documentation with relevant technical regulations, including sanitary-epidemiological and environmental regulations, requirements for the protection of objects of cultural heritage, as well as fire, industrial, nuclear and other kinds of safety requirements, and compliance with the results of engineering surveys with relevant technical regulations.

***Environmental enforcement authorities***

Currently state environmental regulation is administered by several federal services and agencies and their regional subdivisions, in particular, Rosprirodnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency for Subsoil Use, the Federal Agency for Forestry, the Federal Agency for Water Resources and some others. Included in these agencies sphere of responsibility are environmental preservation and control, enforcement and observance of environmental legislation, drafting and approving regulations and filing court claims to recover environmental damages. The statute of limitations for such claims is 20 years.

The Russian federal government and the Ministry of Natural Resources and Ecology are responsible for coordinating the work of the federal services and agencies engaged in state environmental regulation.

The structure of environmental enforcement authorities described above was established in 2004. This structure was subjected to certain changes in 2008 and 2010. In particular, the Ministry of Natural Resources was transformed into the Ministry of Natural Resources and Ecology and Rostekhnadzor was put under its supervision. In late 2010, this structure was further changed and all powers previously held by Rostekhnadzor in terms of environmental control, permits and fees administration were transferred to Rosprirodnadzor.

***Environmental liability***

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines or other penalties to compensate for damages.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the reclamation requirements are generally low; however, failure to comply with reclamation requirements can result in a suspension of mining operations.

***Reclamation***

We conduct our reclamation activities for land damaged by production in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of December 22, 1995, of the Ministry of Natural Resources. In general, our reclamation activities involve both a technical stage and a biological stage. In the first stage, we backfill the pits, grade and terrace mound slopes, level the surface of the mounds, and add clay rock on top for greater adaptability of young plants. In the biological stage, we plant conifers (pine, larch, cedar) on horizontal and gently sloping surfaces and shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. In 2012, we incurred reclamation costs in Russia and the United States of approximately $4.5 million and $0.5 million, respectively.

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***Kyoto Protocol***

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on February 16, 2005. At the Doha 2012 United Nations Climate Change Conference Russia, Japan and some other countries announced suspension of their participation in the Kyoto Protocol. Therefore, we do not currently anticipate that further implementation of the Kyoto Protocol will have any material impact on our business.

**Technical Regulations**

We are subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Federal Law No. 184-FZ On Technical Regulation dated December 27, 2002, as amended (the **Technical Regulation Law**) has introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. It was expected that these rules or technical regulations would replace the previously adopted state standards (the so-called GOSTs). However, most technical regulations have not been implemented yet, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment and/or consumers. In addition, the federal standardization authority has declared GOSTs and interstate standards adopted before July 1, 2003 to be the applicable national standards.

In certain circumstances, companies are required to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. A number of our products must be certified. Where certification is not mandatory, a company may elect voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of such certificate, the applicant has the right to use the relevant compliance mark on its products.

**Health and Safety Regulations in Russia**

Due to the nature of our business, much of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law On Industrial Safety of Hazardous Production Facilities, dated July 21, 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to production facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced, where hazardous substances are stored and used (including allowed concentrations) and where certain types of mining is done. There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises and the foundry industry.

The recent amendments to the Safety Law determine hazardous production facilities of four classes from class IV to class I, with class IV being less hazardous and class I being the most hazardous. The safety and compliance requirements set up by the Safety Law apply to each facility depending on their class of hazard. Each existing hazardous production facility should be re-registered with the state register by January 1, 2014 and be assigned with a hazard class.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction or liquidation of industrial sites is prohibited unless reviewed by a licensed expert organization and approved by Rostekhnadzor.

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In addition, the recent amendments to the Safety Law introduce an alternative form of industrial safety regulation that is based on risk assessment rather than prescriptions of obligatory requirements and standards imposed by Rostekhnadzor. A company that operates a hazardous production facility may develop a safety case, a document which describes that the facility has been designed and operated in a way to limit any risks of major accident. The Safety Law considers that in drafting the safety case, the relevant companies will be able to refer to specific safety arrangements and safety analyses as confirmation of having certain safety measures in place. To make these arrangements fully operational further changes will need to be introduced into relevant laws and regulations.

Companies that operate such production facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia of December 30, 2001, as amended (the **Labor Code** ). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. Russian regulations require these companies to enter into contracts with professional emergency response units or create their own emergency response services in certain cases, conduct personnel trainings and drills, create systems to cope with and notify the authorities of accidents and maintain these systems in good working order. Effective from January 1, 2014, companies that operate industrial sites of hazard classes I and II must implement industrial safety management systems to prevent accidents and incidents at hazardous production facilities and develop certain emergency response plans.

Companies that operate production sites of hazard classes I and II and handle hazardous substances in quantities set by the law must also prepare declarations of industrial safety which summarize the risks associated with operating a particular production site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration as well as a state industrial safety review are required for the issuance of a license permitting the operation of a hazardous production facility.

Rostekhnadzor has broad authority in the field of control and management of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous production facility where the accident took place bears all costs of an investigation. Rostekhnadzor officials have the right to access production sites and may inspect documents to ensure a company s compliance with safety rules. Rostekhnadzor may suspend for up to 90 days or initiate a court decision to terminate operations of companies and/or impose administrative liability on officers of such companies.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

**Russian Antimonopoly Regulation**

The Federal Law On Protection of Competition, dated July 26, 2006, as amended (the **Competition Law** ), provides for a mandatory pre-approval by the FAS of the following actions:

other than in respect to financial organizations, such as banks, an acquisition by a person (or its group) of more than 25% of the voting shares of a Russian joint-stock company (or one-third of the interests in a Russian limited liability company), except upon incorporation, and the subsequent increase of these stakes to more than 50% of the total number of the voting shares and more than 75% of the voting shares (one-half and two-thirds of the interests in a Russian limited liability company), or acquisition by a person (or its group) of ownership or rights of use with respect to the core production assets and/or intangible assets of an entity which are located in Russia if the balance sheet value of such assets

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exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of a Russian entity or to exercise the powers of its executive body by a person (or its group), or an acquisition by a person (or its group) of more than 50% of the voting shares (interests) of a foreign entity, which has supplied goods, works and/or services to Russia in an amount exceeding 1 billion rubles in the preceding year, or other rights to determine the conditions of business activity of such entity or to exercise the powers of its executive body, if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group (excluding the asset value of the seller and its group, if as a result of the acquisition the seller and its group cease to determine the conditions of business activity of the target) exceeds 7 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or the total annual revenues of such acquirer and its group, and the target and its group for the preceding calendar year exceed 10 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or an acquirer, and/or a target, or any entity within the acquirer s group or a target s group are included in the Register of Entities Having a Market Share in Excess of 35% on a Particular Commodity Market (the **Monopoly Register**);

mergers and consolidations of entities, other than financial organizations, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds 7 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 10 billion rubles, or if one of these entities is included in the Monopoly Register; and

founding of a business entity, if its charter capital is paid by the shares (or limited liability company interests) and/or the assets (other than cash) of another business entity (other than financial organization) or the newly founded business entity acquires shares (or limited liability company interests) and/or the assets (other than cash) of another business entity based on a transfer act or a separation balance sheet and rights in respect of such shares (or limited liability company interests) and/or assets (excluding monetary funds) as specified above, at the same time provided that the aggregate asset value of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets (other than cash) are contributed to the charter capital of the newly founded business entity exceeds 7 billion rubles, or total annual revenues of the founders (or group of persons to which they belong) and the business entities (or groups of persons to which they belong) which shares (or limited liability company interests) and/or assets are contributed to the charter capital of the newly founded business entity for the preceding calendar year exceed 10 billion rubles, or if a business entity whose shares (or limited liability company interests) and/or assets (other than cash) are contributed to the charter capital of the newly founded business entity is included in the Monopoly Register.

The above requirements for a mandatory pre-approval by the FAS will not apply if the transactions are performed by members of the same group, if the information about such a group of persons was disclosed to the antimonopoly authority and there were no changes within one month prior to the date of the transaction within that group of persons. In such cases, the FAS must be notified of the transactions subsequently in accordance with Russian anti-monopoly legislation. Furthermore, the requirement for a mandatory approval of transactions described in the first bullet point above will not apply if the transactions are performed by members of the same group where a company and individual or an entity, if such an individual or an entity holds (either due to its participation in this company or based on the authorities received from other persons) more than 50% of the total amount of votes in the equity (share) capital of this company. In such cases, the FAS must be notified of the transaction as described in the next paragraph.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) to the FAS in connection with actions specified above if the aggregate asset value or total annual revenues of an acquirer and its group, and a target and its group for the preceding calendar year exceed 400 million rubles and at the same time the total asset value of the target and its group exceeds 60 million rubles.

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A transaction entered into in violation of the above requirements may be invalidated by a court decision pursuant to a claim brought by the FAS if the FAS proves to the court that the transaction leads or could lead to the limitation of competition in the relevant Russian market. The FAS may also issue binding orders to companies that have violated the applicable antimonopoly requirements and bring court claims seeking liquidation, split-up or spin-off of business entities if a violation of antimonopoly laws was committed by such business entities. In addition, a company may be subject to the administrative fine of an amount from 150 to 250 thousand rubles for the failure to file a FAS post-transactional notification and from 300 to 500 thousand rubles for the failure to file an application for FAS pre-approval of the transaction.

Under the Competition Law, a company with a dominant position in the relevant market is prohibited from misusing its dominant position. Specifically, such company is prohibited from:

- establishing and maintaining monopolistically high or monopolistically low prices of goods;
- withdrawing goods from circulation, if the result of such withdrawal is an increase in the price of goods;
- imposing contractual terms upon a counterparty which are unprofitable for the counterparty or not related to with the subject matter of agreement (i.e., terms that are economically or technologically unjustified);
- reducing or terminating, without economical or technological justification, production of goods if there is a demand for the goods or orders for their delivery have been placed and it is possible to produce them profitably;
- refusing or evading, without economical or technological justification, to enter into a contract with customers in cases when the production or delivery of the relevant goods is possible;
- establishing without economical, technological or other justification different prices for the same goods;
- establishing unjustifiably high or unjustifiably low price of a financial service by a financial organization;
- creating discriminatory conditions;
- creating barriers to entry into the market for the relevant goods or forcing other companies to leave the market;
- violating pricing procedures established by law; and
- manipulating prices in the wholesale and/or retail electricity (capacity) markets.

When a company is included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position in the relevant market, it may be subject to additional FAS oversight. In addition, in the event of breach of any terms of business conduct required by the FAS, the FAS may initiate proceedings to investigate a breach of antimonopoly laws. If a breach of the antimonopoly laws is identified, the FAS may initiate administrative proceedings which may result in the imposition of a fine calculated on the basis of the annual revenues received by the company in the market where such breach was committed. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sales of all goods, works and services in the market where such violation was committed, but

not more than 2% of gross proceeds of sale of all goods, works and services for the year preceding the year of the violation. Russian legislation also provides for criminal liability of company managers for violations of certain provisions of antimonopoly legislation. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The same liability

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will apply to a company not formally included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position in the relevant market if it is proved that such company occupies a dominant position on the basis of review of various facts, information and documents.

The FAS has determined certain of our companies to have a dominant position in certain markets and these companies are subject to directive issued by the FAS which impose certain restrictions on their commercial activities. See Risk Factors Risks Relating to Our Business and Industry Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

**The Strategic Industries Law**

The Strategic Industries Law adopted on April 29, 2008 and subsequently amended in 2010 and 2011 regulates foreign investments in companies with strategic importance for the national defense and security of the Russian Federation ( **Strategic Companies** ). The Strategic Industries Law provides an exhaustive list of strategic activities, engagement in which makes a company subject to restrictions. Among others, the list of such activities includes exploration and/or production of natural resources on subsoil plots of federal importance. Subsoil plots of federal importance include plots with deposits of uranium, diamonds, high-purity quartz ore, nickel, cobalt, niobium, lithium, beryllium, tantalum, yttrium-group rare-earth metals and platinoid metals. They also include deposits of oil, gas, vein gold and copper which are above certain size limits specified in the Subsoil Law, as well as subsoil plots of the internal sea, territorial sea and continental shelf; and subsoil plots, the use of which requires the use of land plots included in the category of national defense and security land. The Strategic Subsoil List was first officially published in *Rossiyskaya Gazeta* on March 5, 2009. Services rendered by business entities included into the register of natural monopolies pursuant to the Federal Law On Natural Monopolies, dated August 17, 1995, as amended, with certain exceptions, are also considered to constitute strategic activity. Furthermore, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be a strategic activity. The production and distribution of industrial explosives is also deemed to be activity of strategic importance for national defense and homeland security.

Investments resulting in a foreign investor or a group of entities obtaining control over a Strategic Company require prior approval from state authorities. The procedure for issuing such consent will involve a special governmental commission on the control of foreign investments (the **Governmental Commission** ), which was established by a government resolution dated July 6, 2008 as the body responsible for granting such consents, and the FAS, which is authorized to process applications for consent from foreign investors and to issue such consents based on the decisions of the Governmental Commission. **Control** for these purposes means an ability to determine, directly or indirectly, decisions taken by a Strategic Company, whether through voting at the general shareholders (or limited liability company interest-holders ) meeting of the Strategic Company, participating in the board of directors or management bodies of the Strategic Company, or acting as the external management organization of the Strategic Company or otherwise. Thus, generally, control will be deemed to exist if any foreign investor or a group of entities acquires more than 50% of the shares (or limited liability interests) of a Strategic Company, or if by virtue of a contract or ownership of securities with voting rights it is able to appoint more than 50% of the members of the board of directors or of the management board of a Strategic Company. However, there are special provisions for Strategic Companies involved in the exploration or extraction of natural resources on plots of federal importance ( **Subsoil Strategic Companies** ): a foreign investor or group of entities is considered to have control over a Subsoil Strategic Company when such foreign investor or group of entities holds directly or indirectly 25% or more of the voting shares of the Subsoil Strategic Company or holds the right to appoint its sole executive officer and/or 25% or more of its management board or has the unconditional right to elect 25% or more of its board of directors.

Furthermore, in case a foreign investor or its group of entities which is a holder of securities of a Strategic Company, Subsoil Strategic Company or other entity which exercises control over these companies becomes a direct or indirect holder of voting shares in amount which is considered to give them direct or indirect control

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over these companies in accordance with the Strategic Industries Law due to a change in the allocation of votes resulting from the procedures provided by Russian law (e.g. as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares or holders of preferred shares becoming entitled to vote at a general shareholders meeting in cases provided by Russian law), such shareholders will have to apply for state approval of their control within three months of receiving such control. If the Governmental Commission refuses to grant the approval the shareholders shall sell the relevant part of their respective shares or participatory interest, and if they do not comply with this requirement, a Russian court can deprive such foreign investor or its group of entities of the voting rights in such Strategic Company upon a claim of the competent authority. In such cases, the shares of the foreign investor are not counted for the purposes of establishing a quorum and reaching the required voting threshold at the general shareholders meeting of the Strategic Company.

Any transfers of a stake, or certain rights, in a Strategic Company or in a Subsoil Strategic Company between foreign investors that are (i) companies controlled by the Russian Federation or (ii) companies controlled by Russian nationals, provided that such Russian nationals are Russian tax residents and do not have dual nationality, will not require prior approval from the state authorities.

If a foreign investor or its group of entities obtains control over a Strategic Company in violation of the Strategic Industries Law, the relevant transaction is void, and in certain cases a Russian court can deprive such foreign investor or group of entities of the voting rights in such Strategic Company upon a claim by the competent authority. In addition, resolutions of the general shareholders meetings or other management bodies of a Strategic Company adopted after a foreign investor or group of entities obtained control over the Strategic Company in violation of the Strategic Industries Law, as well as transactions entered into by the Strategic Company after obtaining such control, may be held invalid by a court upon a claim by the competent authority. See Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

**Employment and Labor Regulations in Russia**

Labor matters in Russia are governed primarily by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by federal laws, such as the Law On Employment in the Russian Federation, dated April 19, 1991, as amended, and the Law On Compulsory Social Insurance Against Industrial Accidents and Occupational Diseases, dated July 24, 1998, as amended; legal acts of executive authorities; and local government acts related to labor issues.

***Employment contracts***

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labor legislation generally disfavors fixed-term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labor relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by the Labor Code or other federal law. In some cases it is also possible to enter into an employment contract for the employee to perform specified tasks. All terms and conditions of employment contracts are regulated by the Labor Code.

Under Russian law, employment may be terminated by mutual agreement between the employer and the employee at the end of the term of a fixed-term employment contract or on the grounds set out in the Labor Code as described below. An employee has the right to terminate his or her employment contract with a minimum of two weeks notice (or one month s notice for a company s chief executive officer), unless the employment contract is terminated before the notice period ends by mutual agreement between employer and employee.

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An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position s requirements due to incompetence, as confirmed by the results of an attestation;
- repeated failure of the employee to fulfill his or her work duties without valid reason, provided that the employee has been disciplined previously;
- entering the workplace under the influence of alcohol, narcotics or other intoxicating substances;
- a single gross breach by an employee of his or her work duties, including truancy;
- disclosure of state secrets or other confidential information, which an employee has come to know during fulfillment of his professional duties;
- embezzlement, willful damage or destruction of assets, and misappropriation as confirmed by a court decision or a decision by another competent government authority;
- failure to comply with safety requirements in the workplace if such failure to comply caused injuries, casualties or catastrophe; and
- provision by the employee of false documents upon entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation and salary payments for a certain period of time, depending on the circumstances.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise and other events specified in the Labor Code, an employer cannot dismiss minors, pregnant women, mothers with a child under the age of three, single mothers with a child under the age of 14 or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

***Work time***

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

For employees working in hazardous or harmful conditions, the regular working week is decreased by four hours in accordance with government regulations. Some of our production employees qualify for this reduced working week.

Annual paid vacation leave under the law is 28 calendar days. Our employees who work in mines and pits or work in harmful conditions may be entitled to additional paid vacation ranging from 7 to 42 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, employees who work in underground and open pit mines or do other work in potentially harmful conditions have the right to retire at an earlier age. The rules defining such early retirement ages are established by the Federal Law On Labor Pensions in the Russian Federation, dated December 17, 2001, as amended.

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***Salary***

The minimum monthly salary in Russia, as established by federal law, is 5,205 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

***Strikes***

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of employment.

***Trade unions***

Although Russian labor regulations have decreased the authority of trade unions compared with the past, they retain influence over employees and, as such, may affect the operations of large industrial companies in Russia, such as Mechel. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

The activities of trade unions are generally governed by the Federal Law On Trade Unions, Their Rights and Guarantees of Their Activity, dated January 12, 1996, as amended (the **Trade Union Law**). Other applicable legal acts include the Labor Code, which provides for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- organize and participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;

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protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;

retention of job positions for those employees who stop working due to their election to the management of trade unions;

protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term, except where a company is liquidated or the employer is otherwise entitled to dismiss the employee; and

provision of necessary equipment, premises and vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration. Although the Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability, no specific consequences for such violations are set out in Russian legislation.

**Regulation of Russian Electricity Market**

***Industry background***

The Russian utilities sector landscape has undergone dramatic changes within the past several years, since the introduction of electricity industry reform under Government Resolution On Restructuring of Electricity Industry of the Russian Federation No. 526 dated July 11, 2001 ( **Resolution No. 526** ). The monopoly RAO Unified Energy System of Russia OAO (the **UES** ) was liquidated and separated in to separate businesses: electricity and heat generation, transmission (high voltage trunk grid), distribution (medium- and low-voltage infrastructure) and supply (sale of electricity to customers).

The electricity generation sector is now principally comprised of six thermal wholesale generating companies (called OGKs based on the Russian acronym for Wholesale Generating Company), one hydro wholesale generating company (named RusHydro), 14 territorial generating companies ( **TGKs** ), RAO Eastern Energy Systems OAO, Inter RAO OAO, various nuclear generation complexes (owned and/or operated by the Rosenergoatom Concern OJSC), as well as a number of independent regional diversified electricity producers and suppliers (Irkutskenergo OAO, Bashkirenergo OAO, Tatenergo OAO, Novosibirskenergo OAO).

Pursuant to the Federal Law On Specific Features of the Functioning of the Electricity Industry during the Transitional Period and on Introduction of Amendments into Certain Laws of the Russian Federation and Abolishing Certain Laws of the Russian Federation in connection with the Adoption of the Federal Law On the Electricity Industry No. 36-FZ dated March 26, 2003 (the **Transitional Period Law** ), companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, through simultaneously owning, or using on any other legal basis, assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale.

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Amendments to the Transitional Period Law adopted in December 2011 introduced an enforcement mechanism with respect to affiliated companies which do not comply with the law. Pursuant to the amendments to the Transitional Period Law, if these requirements are not met, the FAS is entitled to file an application seeking a court order for forced reorganization to separate the assets in case they are combined within one company, or, in case of they are combined among affiliated companies, for a forced sale at a public auction first, of assets owned and directly used in electricity generation and/or sale and second, if the sale of electricity generation and/or sale assets is not possible, of assets owned and directly used in electricity distribution.

***Sales of electricity***

The Russian electricity market consists of wholesale and retail electricity and capacity markets. The wholesale electricity and capacity market encompasses European territory of the Russian Federation, the Urals and Siberia and is divided into two pricing zones. The first pricing zone includes European territory of the Russian Federation and the Urals and the second pricing zone includes Siberia. This market provides a framework for large-scale, often interregional, energy trades. The retail electricity market operates within all Russian regional territories and provides a framework for mid-scale and end-consumer energy trades. This market is regulated by the respective Regional Energy Committees, or RECs.

*Wholesale electricity market*

The wholesale market is a system of contractual relationships between all of its participants linked together by the process of production, transmission, distribution, purchase and sale and consumption of electricity. This unified energy system encompasses six regional unified energy systems, which are the following: North-West, Central, Urals, Mid-Volga, South and Siberia.

The wholesale market participants mainly include:

- producers of electricity and capacity: generating companies (OGKs, TGKs and various other generators);
- electricity supply companies (energy traders) which have purchased electricity and capacity for further resale on wholesale and retail markets;
- purchasers of electricity and capacity: major power consumers and generating companies which at certain points in time may elect to purchase electricity to fulfill their supply obligations instead of generating their own; and
- grid companies (to cover electricity losses sustained in transmission and distribution of electricity).

The infrastructure of the wholesale market is operated by the Non-profit Partnership Market Council and the Trade System Administrator OAO (the **TSA**) which organize the trading; a system operator established in the form of an open joint-stock company (the **System Operator**) by the former UES; the Federal Grid Company (the **FGK**), which owns and runs the federal transmission network of the electric grids; OAO Holding IDGC, which owns and runs region transmission networks of the electric grids; and the Financial Settlement Center ZAO, which is a clearance and settlement organization for the wholesale electricity and capacity market.

Currently electricity is traded on the basis of the following trading mechanisms:

***Regulated bilateral contracts***

Regulated contracts are effectively take-or-pay obligations at regulated prices defined by the FTS for electricity and capacity volumes. The volumes of electricity to be traded by the generators under regulated contracts are set up by the FTS annually based on percentages of the volumes of electricity generated in the previous year. The volumes of electricity traded under regulated contracts have gradually declined for the wholesale market when it became fully liberalized in 2011. Starting from January 1, 2011, electricity is traded at non-regulated prices, except for electricity intended for supply to households.

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A generator may provide the volumes of electricity it must sell under regulated contracts either through own generation or through the purchase of electricity on the spot market at market prices. Similarly, its customers receive electricity at regulated prices in the volumes agreed under the regulated contracts, regardless of their actual needs, and can freely trade the imbalance on the spot market at market prices (either by purchasing additional volumes, if needed, or selling the excess electricity volumes).

***Non-regulated bilateral contracts***

Electricity supply volumes which are not agreed upon under regulated contracts, as well as all new generation capacity commissioned after January 1, 2007, can be traded by participants of the wholesale market under non-regulated contracts, on the one-day-ahead spot market or on the balancing market. All terms of electricity supply under non-regulated contracts are subject to free negotiation between sellers and purchasers.

*Retail electricity market*

The retail market currently includes sales companies that do not generate electricity, but purchase it from generators on the wholesale market.

The retail electricity market operates on the following main principles: (1) end consumers are free to choose between sales companies; (2) end consumers purchase at free prices set on the market, except for contracts with guaranteeing suppliers ; and (3) guaranteeing suppliers cannot refuse to enter into a contract with an end consumer.

Guaranteeing suppliers sell electricity under prices that take account of: (1) the prices on the wholesale electricity market; (2) the sales premium of the particular guaranteeing supplier set by respective regional authorities; and (3) the prices for electricity transmission and distribution through electricity networks.

*Heat market*

Heat markets are regional retail markets and heat prices are regulated and set within the general guidelines provided by the FTS and by regional authorities. Minimum and maximum prices for heat energy traded on the retail markets are set by the FTS separately for each administrative region of Russia for a period of at least one year. Regional authorities establish the prices for relevant territories within the range set by the FTS and subject to the types and prices of fuel used to produce the heat and the volumes of heat purchased on the relevant territory.

Our Southern Kuzbass Power Plant delivers heat energy (in the form of hot water) at regulated prices to residential and commercial customers in Kaltan and Osinniki. Mechel Energo delivers heat energy (in the form of hot water and steam) at regulated prices to residential and commercial customers in the cities of Vidnoe, Chelyabinsk, Chebarkul, Beloretsk, Guryevsk, Mezhdurechensk, Myski and Izhevsk.

**U.S. Environmental, Health, Safety and Related Regulation**

The Bluestone companies, like the rest of the coal mining industry in the United States, are subject to a variety of federal, state and local laws and regulations with respect to matters such as: the pollution, protection, investigation, reclamation and restoration of the environment, human and animal health and safety, and natural resources; the use, generation, handling, transport, treatment, storage, recycling, disposal, presence, release and threatened release of and exposure to hazardous substances or waste; noise, odor, mould, dust and nuisance; and cultural and historic resources, land use and other similar matters. We are required to incur significant costs to comply with these requirements.

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Violators of the laws summarized below may generally be subject to fines, in most cases applicable on a per day, per violation basis. In some cases even seemingly minor violations may add up to significant penalties. In addition, most U.S. environmental, health and safety laws authorize citizen suits, permitting third parties to make claims for violations of law.

We endeavor to conduct our operations in compliance with all applicable regulatory requirements, but violations may occur from time to time. If we fail to comply with any present or future regulations, we could be subject to liabilities, required changes to or the suspension or curtailment of operations, and fines and penalties. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment or incur other significant expenses. Often, private suits for personal injury, property damage or diminution, or similar claims may be initiated in connection with alleged regulatory infractions.

Certain environmental laws impose liability for the costs of removal or remediation of hazardous or toxic substances on an owner, occupier or operator of real estate, even if such person or company was unaware of or not responsible for the presence of such substances. Soil and groundwater contamination may have occurred at, near or arising from some of our facilities, including instances in which contamination may have existed prior to our ownership or occupation of a site. As a result, we may incur cleanup costs in such potential removal, remediation or reclamation efforts.

From time to time new legislation or regulations are enacted, or existing requirements are changed, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted.

The following is a summary of various U.S. environmental, health and safety and similar regulations that we believe have a material impact on our U.S. coal business in West Virginia.

***Surface Mining Control and Reclamation Act and corresponding West Virginia law***

The federal Surface Mining Control and Reclamation Act, which is administered by the U.S. Department of Interior s Office of Surface Mining Reclamation and Enforcement, establishes mining, environmental protection and reclamation requirements for all aspects of surface mining, as well as many aspects of underground mining. States that have adopted comprehensive mining regulatory programs may obtain federal approval and become the regulatory authority with primary control and enforcement of these standards. The West Virginia Surface Coal Mining and Reclamation Act ( **SCMRA** ) was enacted as an approved state program for administration of the federal Surface Mining Control and Reclamation Act.

SCMRA and the rules promulgated thereunder set forth detailed design, construction, reclamation and performance standards for surface and underground mines that parallel the requirements of the federal regulations. SCMRA prohibits any person from engaging in surface mining operations without a permit from the state Department of Environmental Protection ( **DEP** ). Permit requirements generally track, but are not identical to, the federal regulations. The state regulations, for example, contain special procedures for ascertaining the ownership, control and compliance status of the applicant. In addition, provisions relating to bonding, prospecting and inactive status differ from the federal regulations.

Underground coal mining operations must also maintain permits for their above-ground effects. Permit requirements include submitting a subsidence control plan that describes the type of mining to be conducted and its probable surface impacts. The plan must generally include measures to minimize subsidence and related damages.

The U.S. Department of Interior is considering new standards governing new permit applications under the federal program. These new standards would pertain to the restoration of mountaintops affected by surface mining and would develop a federal definition of material damage that would apply to existing watershed area protections. It would also remove the rights of states to revise or grant exemptions to federal restoration standards

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and could require surface mining companies to obtain additional information on the environmental conditions near their operations, monitor such conditions before and after mining and change or close operations if unpermitted damage to the area occurs.

Applications for new permits or renewal of existing permit in the U.S. are subject to public notice and comments. As part of or as a result of this process, third parties, including non-governmental organizations or individuals, can require amendments or object to such permits in administrative proceedings, and in some cases can initiate litigation in a court of law to challenge an agency decision. These actions can delay the permit application or renewal process significantly and, if successful, can prevent the continuation or commencement of our operations. We typically make applications to renew these permits 120 days prior to the expiration of the permit.

Administrative enforcement provisions include civil penalties, cessation orders and permit revocation. Appeals from DEP actions are heard by the Surface Mining Board and limited judicial review is available upon appeal to the circuit court of the county in which the mine is located. Suits by private citizens may also be brought to obtain injunctions or damages.

Prospecting activity must be preceded by a notice of intent to prospect. Where more than a specified amount of coal is to be removed, public notice and an opportunity for comments must be given before obtaining the required approval from DEP.

Under SCMRA, surface mining operations must also comply with monitoring requirements and effluent limitations set forth in the federal Clean Water Act. In addition, the state Water Pollution Control Act requires that a permit be obtained to construct, install, modify, reopen, operate or abandon any mine, quarry or preparation plant from which any discharges or pollution are expected. See below for further discussion of the Clean Water Act and other water related regulatory issues.

Like its federal counterpart, SCMRA also provides for the designation of certain areas as unsuitable for all or certain types of surface mining.

The West Virginia Abandoned Mine Lands and Reclamation Act, created pursuant to Title IV of SCMRA, establishes an abandoned mine reclamation fund for reclamation and restoration activities and preventive and remedial measures associated with past mining.

***Surety bonds and mine closure costs***

Federal and state laws require mining operations to obtain surety bonds or other forms of financial security to secure payment of certain long-term obligations, including mine closure and reclamation costs, state workers compensation costs and other miscellaneous obligations. Many of these bonds are renewable on an annual basis. In recent years, surety bond premiums have been fluctuating increased and the market terms of surety bonds have generally become less favorable. The number of companies willing to issue surety bonds has also declined during some periods. We cannot predict with certainty our future ability to obtain, or the cost of, bonds that may be required for our U.S. coal operations.

***Mine safety and health***

The U.S. coal mining industry is subject to extensive and comprehensive regulation with respect to worker health and safety. In 1977 the Federal Mine Safety and Health Act (the **Act** ) consolidated all federal health and safety regulations of the mining industry (coal and non-coal) under a single statutory scheme. The Act strengthened and expanded the rights of miners, and enhanced the protection of miners from retaliation for exercising those rights. The Act also created the Mine Safety and Health Administration ( **MSHA** ), which administers the provisions of the Act and enforces compliance with mandatory safety and health standards. MSHA has authority over all mining and mineral processing operations in the United States, regardless of size,

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number of employees, commodity mined or method of extraction. The Federal Mine Safety and Health Review Commission independently reviews MSHA s enforcement actions. West Virginia also maintains a program for mine safety and health regulation, inspection and enforcement.

In response to certain highly publicized mine incidents over the years, legislative and regulatory bodies at the federal and state levels, including MSHA, have promulgated or proposed various new statutes, regulations and policies relating to mine safety and mine emergencies, including the federal MINER Act passed in 2006. Some of the new obligations include, for example, improved technologies and safety practices, tracking and communication, emergency response plans and equipment. Various states, including West Virginia, have also enacted new laws to address similar subjects. In addition, federal black lung benefits laws and coal industry health benefits laws, among others, may impact us. Regulatory efforts in this area are ongoing. At this time, it is not possible to predict with accuracy the full effect of new and future U.S. mine health and safety regulation on our business.

***Clean Air Act ( CAA )***

The CAA and corresponding state rules regulate emissions of materials into the air and affect our U.S. coal operations both directly and indirectly. Certain sources of air pollution, for example, including coal preparation and processing operations, must obtain and maintain operating permits, which are generally reviewed every five years and contain compliance requirements such as compliance certification, testing, monitoring, reporting and record-keeping. Such operations are also subject to emission restrictions, including for particulate matter and fugitive dust. The CAA also indirectly affects coal mining operations by extensively regulating the emissions of coal-fuelled power plants and industrial boilers. In general, there has been increased interest in recent years in legislation focused on power plant emissions. Construction of new sources of air pollution (including in some cases reconstruction and modification of existing sources) also triggers preconstruction review and approval by authorities, with typically more stringent control technology and permitting requirements.

Some of the CAA requirements that may materially directly or indirectly affect our operations are briefly described below. West Virginia has also promulgated regulations relating to acid rain, emissions limitations for specific pollutants, and permit standards for the construction, major modification or relocation of major stationary sources of air pollution. Standards governing air pollution from coal refuse disposal, coal preparation plants, coal handling operations and ambient air quality for particular pollutants, as well as procedures relating to air pollution emergencies, are also established under the state regulations.

*Acid rain.* One of the regulatory programs established under the CAA concerns the control of sulfur dioxide and nitrogen oxide ( **NOx** ), precursors of acid deposition. Through an emission allowance and trading program, Title IV of the CAA imposes a two-phase cap on total sulfur dioxide emissions from sources including electric utilities. All of the Phase I and Phase II allowances offered by the EPA have been purchased each year since there is no minimum bid requirement. In general, affected power plants have also sought to comply with these requirements by switching to lower sulfur fuels, installing pollution control equipment, and reducing electricity generation levels. The program also directs EPA to impose NOx emissions rate limits on coal-fired electricity generating sources. At this time, we believe that these regulations have affected coal prices but we cannot predict with certainty the future effect of these CAA provisions on our business.

*Emissions standards for particulate matter and ozone.* A significant component of the CAA is the national ambient air quality standard ( **NAAQS** ) program, which addresses pervasive pollution that endangers public health and welfare. NAAQS have been established for a number of pollutants, including particulate matter and ozone. For each of these pollutants, NAAQS are set at certain levels and areas that do not meet one or more of the NAAQS are known as non-attainment areas and must comply with a number of special requirements. NAAQS are to be reviewed and revised as appropriate at least every five years. In recent years the EPA has made a number of decisions regarding the NAAQS program that have been the subject of controversy and litigation, and may have important implications for future regulation under the CAA. Regulation and enforcement of new standards for

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particulate matter and ozone will affect many power plants, especially in non-attainment areas, and significant emissions control expenditures may be required to meet these current and emerging standards.

*Clean Air Interstate Rule.* The Clean Air Interstate Rule ( **CAIR** ) is a program for approximately 28 eastern states, including West Virginia, that contributes to downwind states nonattainment of NAAQS. The CAIR applies to sulfur dioxide and NOx. It interacts with, and in some cases supersedes, other existing programs under the CAA such as the Acid Rain program, the Regional Haze rule and the NOx SIP Call. The CAIR requires states to revise their State Implementation Plans ( **SIPs** ) to reduce emissions of sulfur dioxide and NOx. The CAIR has been the subject of litigation since its promulgation; a December 2008 appeals court decision left the CAIR in place until the EPA issues a new rule to replace the CAIR in accordance with the court s previous decision. In July 2011, the EPA finalized the Cross-State Air Pollution Rule (requiring significant reductions in sulfur dioxide and NOx emissions from power plants in the eastern U.S.) to replace the CAIR, but it is currently stayed pending judicial review. All of the foregoing could adversely affect the purchase of our coal by customers.

*Clean Air Mercury Rule.* In 2005, the Clean Air Mercury Rule ( **CAMR** ) became the first regulation to directly address mercury contamination. The rule would have applied to new and existing coal-fuelled electric utility steam generating units nationwide and creates a cap-and-trade system. Each affected unit would be required to have a continuous emission monitoring system or an effective long-term system that can trap an uninterrupted sample of mercury, and maintain records and report periodically to demonstrate compliance with the mercury limits. The rule, however, was vacated during litigation, and was replaced by the EGU Mercury and Air Toxics Standard ( **EGU MATS** ) finalized on April 16, 2012. In addition, before the court vacated the CAMR, some states had either adopted the CAMR or adopted state specific rules to regulate mercury emissions from power plants that are more stringent than the CAMR. The implementation of the EGU MATS and state mercury and air toxics controls may adversely affect the demand for coal.

*Regional haze.* The EPA has initiated a regional haze program to address visibility issues in and around national parks and wilderness areas. Among other things, the program requires state permitting authorities to consider the effects of new major facilities on federally protected lands, and may require existing facilities to undertake additional pollution control measures. Under the Regional Haze Rule, affected states were required to submit regional haze SIPs by December 17, 2007 aiming at identifying facilities that would have to reduce emissions and comply with stricter emission limitations. Although the vast majority of states failed to submit their plans on time and the EPA issued a Finding of Failure to Submit SIPs on January 15, 2009 (74 Fed. Reg. 2392), it had taken no enforcement action against states to finalize implementation plans and was slowly dealing with the state Regional Haze SIPs that were submitted, resulting in the National Parks Conservation Association initiating litigation against the EPA in the D. C. Circuit Court of Appeals in August 2012 for failure to enforce the rule (National Parks Conservation Act v. EPA, D.C.Cir). Industry groups, including the Utility Air Regulatory Group have intervened (Utility Air Regulatory Group v. EPA. D.C. Cir 12-1342, 8/6/2012). This program may result in additional emissions restrictions from new coal-fueled power plants whose operations may impair visibility at and around federally protected areas. This program may also require certain existing coal-fueled power plants to install additional control measures designed to limit haze-causing emissions, such as sulfur dioxide, nitrogen oxides, volatile organic chemicals and particulate matter, and these limitations could affect the future market for coal.

***Climate change***

Burning coal results in significant emissions of carbon dioxide, which is a greenhouse gas ( **GHG** ) and considered by many to be one of the key contributors to global warming and climate change. Regulation of GHG in the United States is currently subject to complicated domestic and international political, policy and economic considerations. As the issue of climate change becomes more politically charged, U.S. federal and state regulators are seeking to respond to a variety of public concerns.

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This regulatory response may impact our operations directly if we become regulated for our emissions of GHGs or for the GHG contents of the coal that we sell to our customers. The regulatory response may also impact our operations indirectly if new regulations apply to our customers that negatively impact the demand for our products.

Between 2007 and 2009, a number of proposals that would have established a federal comprehensive GHG trading program failed to obtain sufficient congressional support to be adopted. As a result, since 2009 the current U.S. administration has pursued an approach involving the adoption of new regulations under existing environmental laws, such as the Clean Air Act, rather than seeking new legislative authority. The U.S. Supreme Court, in its 2007 decision in Massachusetts v. EPA, confirmed that the EPA has statutory authority to classify carbon dioxide and other GHGs as pollutants and regulate them under the Clean Air Act. This was confirmed in the Court s 2011 decision in American Electric Power v. Connecticut.

In its first major action on GHGs, in 2009 the EPA issued a final rule mandating the annual reporting of GHG emissions from a wide variety of emission sources in the United States, including coal-fired power plants, beginning with the calendar year 2010. Although coal mines had been excluded from the reporting obligation imposed by the 2009 rule, on July 12, 2010, the EPA published a final rule for mandatory reporting of GHGs from underground coal mines and several other industrial sources beginning with the calendar year 2011.

In addition, on December 15, 2009, the EPA issued an endangerment finding stating that carbon dioxide and five other greenhouse gases endanger public health and welfare. This finding set the stage for a series of further rules and regulations and established the legal basis for potential direct regulation of GHG emissions from many sources, including coal mines and coal-fired power plants. On May 13, 2010, the EPA issued a final rule that established thresholds for the regulation of GHG emissions from major sources. This rule defines when permits under the New Source Review (the **NSR** ), Prevention of Significant Deterioration (the **PSD** ) and Title V Operating Permit programs are required for new and existing industrial facilities. This final rule tailors the requirements of existing CAA permitting programs to limit which facilities will be required to obtain PSD and Title V permits, generally to those with a potential to emit 25,000 tonnes per year or more of GHGs. This category clearly includes coal-fired power plants and other coal-fired industrial production facilities. This means that although we may not be directly affected by this new permitting initiative in the near term, many of our customers will be.

In the absence of a comprehensive federal program applicable to GHG emissions, a number of state and regional GHG initiatives have also been developed. These include state laws and regulations such as California s Global Warming Solutions Act of 2006 and the rules implemented by the California Air Resources Board pursuant to that statute s mandate, as well as the Regional Greenhouse Gas Initiative, which is an agreement between 10 East Coast states to cap and reduce GHG emissions from the power sector. Furthermore, over the past several years environmental non-governmental organizations in the U.S. have made use of both federal and state laws to block permitting for the construction of new coal-fired power plants, as a result of which few such facilities have broken ground. For example, in 2009 and 2010 construction did not begin on a single new coal-fired facility.

In November 2011, the EPA issued an amendment delaying to April 1, 2013 the reporting deadline for underground coal mines and certain other source categories to file their first annual reports disclosing GHG emissions. On March 27, 2012, the EPA proposed a New Source Performance Standard rule that limits $CO_2$ emissions from new fossil fuel burning power plants to 1,000 pounds of $CO_2$ emissions for every one megawatt hour of power generated. This standard is achievable by most natural gas-fired power plants but is not economically achievable given current technology for coal-fired power generation. This rule, if effective, will likely prevent the construction of new coal-fired power generation for the foreseeable future. Federal legislation that would variously suspend or eliminate EPA s regulatory authority over GHGs has been introduced in both the U.S. House and Senate.

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In addition to federal GHG regulations, there are several new state programs to limit greenhouse gas emissions and others have been proposed. State and regional climate change initiatives are taking effect before federal action. Beginning January 1, 2009, the Regional Greenhouse Gas Initiative ( **RGGI** ), a regional GHG cap-and-trade program calling for a ten percent reduction of emissions by 2018, was established by ten Northeastern states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont). In October 2011, the California Air Resources Board adopted regulations that establish a statewide cap and trade program to control GHG emissions. The program will take effect in 2013.

Current and future regulations applicable to GHG emissions, including carbon dioxide, may increase the costs of using coal as a fuel for power generation. Accordingly, as new requirements take effect there is a risk that coal may not be used as a fuel for new generating facilities or that existing coal-fired power plants may seek to reduce their emissions by switching to other fuels such as natural gas or, in some cases, cease their operations entirely. Reduced demand for coal may thus adversely impact our U.S. coal operations.

***Clean Water Act ( CWA ) and Safe Drinking Water Act ( SDWA )***

The CWA establishes a number of programs designed to restore and protect the quality of U.S. waters by limiting the discharge of pollutants into such waters. These programs include the NPDES permit program, the dredge and fill permit program and municipal wastewater treatment programs. Coal extraction and related activities subject to the West Virginia SCMRA and Water Pollution Control Act are exempt from certain of these requirements.

The NPDES system implements the CWA s prohibition on unauthorized discharges by requiring a permit for every discharge of pollutants from a point source to navigable waters of the United States. NPDES permits give the permittee the right to discharge specified pollutants from specified outfalls, usually for a period of five years. The permit normally sets numerical limits on the discharges and imposes conditions on the permittee (including filing periodic discharge and monitoring reports); discharges that require a permit include industrial process wastewater, non-contact cooling water and collected or channeled storm water runoff. The CWA also requires many facilities to develop and maintain plans for preventing and responding to spills of hazardous substances, called Spill Prevention, Control and Countermeasure Plans ( **SPCC** ), and certain high-volume hazardous substance handling/storage facilities are required to prepare and maintain a more extensive plan called a Facility Response Plan. When a water discharge occurs and one or more parameters are outside the approved limits permitted in an NPDES permit, these exceedances of permit limits are self-reported to the pertinent agency. The agency may impose penalties for each such release in excess of permitted amounts. If factors such as heavy rains or geologic conditions cause persistent releases in excess of amounts allowed under NPDES permits, costs of compliance can be material, fines may be imposed, or operations may have to be idled until remedial actions are possible. In addition, the CWA has citizen suit provisions which allow individuals or organized groups to file suit against permit holders or the EPA or state agencies for failure to enforce all aspects of the CWA. Such actions have recently been filed against other companies.

EPA has generally delegated NPDES permitting authority to West Virginia. West Virginia water pollution law is generally broader than that of its federal counterparts. For example, among other things, state law regulates discharges into all waters of the state, including groundwater, and requires permits for the construction of disposal systems. Recently, however, the EPA has been taking a more active role in NPDES permit issuance, and pursuant to the EPA guidance and a new DEP policy on implementation of the state s narrative water quality standards, the issuance of new and renewed NPDES permits in West Virginia has been curtailed and/or delayed. The EPA published guidance in a July 21, 2011 Final Memorandum entitled Improving EPA Review of Appalachian Surface Coal Mining Operations under the Clean Water Act, National Environmental Policy Act, and the Environmental Justice Executive Order ( **EPA Mining Guidance** ). The EPA Mining Guidance

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establishes threshold conductivity levels to be used as a basis for evaluating compliance with narrative water quality standards. Conductivity is a measure that reflects levels of various salts present in water. The EPA Administrator stated that these water quality standards may be difficult for most mining operations to meet. Furthermore, the DEP has pending litigation against the EPA to challenge the water quality standards in the EPA s guidance documents. It is, as a consequence, not possible to predict with certainty the ability of mining companies to obtain required NPDES permits for new or expanded mining operations, or renewed permits, or the timing of either.

Coal companies are required to obtain 404 Permits from the Corps generally authorizing the disposal of fill material from coal mining activities into the waters of the United States, for the purpose of creating slurry ponds, water impoundments, refuse disposal areas, valley fills for excess spoil disposal, and other mining activities. 404 Permits have been the subject of repeated court challenges and heightened regulatory oversight, which has resulted in delays in obtaining these permits and has increased permitting costs. In addition, in recent years both nationwide and individual permits have been invalidated, including in West Virginia. Although it is still possible to receive such permits, since implementation of a new federal oversight initiative in June 2009, few 404 Permits have been issued. For example, in January 2011, for the first time EPA cancelled a federal water permit after it was issued when it rescinded a CWA permit held by another coal mining company for a surface mine in Appalachia, and in June 2011 the Corps announced it would suspend the use of the nationwide permit for the construction of valley fills and refuse impoundments under CWA Section 404, by surface coal operations in West Virginia and other Appalachian states. It is also widely expected that some pending 404 Permit applications will be denied. Although we have no immediate need for new 404 Permits to continue its current mining operations in the short term, some of our future mine plans (including the continuation of existing mines) would require the issuance of such permits to proceed. It is difficult to predict whether, in light of the regulatory environment, such 404 Permits will be issued to us in the future. If we cannot obtain them, our coal production operations in the coming years could be subject to substantial disruption.

The SDWA primarily targets public water systems, which generally includes any system for the provision of water to the public for human consumption through pipes or other constructed conveyances if such system has at least 15 service connections or regularly serves at least 25 individuals. This broad definition can include informal and transient water systems (e.g., businesses such as coal mining operations having their own wells or water supplies for on-site workers). West Virginia state law prohibits the installation or establishment of any system or method of drainage, water supply or sewage disposal without first obtaining a permit from the Bureau of Public Health. The Department of Health and Human Resources has promulgated rules which adopt the National Drinking Water Regulations under the SDWA. These rules, among other things, require chlorination of public water systems and set fluorination standards.

***Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA )***

CERCLA and similar state laws create liabilities for the investigation and remediation of releases of hazardous substances into the environment and for damages to natural resources. Our current and former coal mining operations incur, and will continue to incur, expenditures associated with the investigation and remediation of facilities and environmental conditions, including underground storage tanks, solid and hazardous waste disposal and other matters under these environmental laws. We also must comply with reporting requirements under the Emergency Planning and Community Right-to-Know Act ( **EPCRA** ) and the Toxic Substances Control Act ( **TSCA** ).

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CERCLA is designed to address comprehensively the problems associated with contaminated land, especially inactive and abandoned hazardous waste sites, listed on the National Priorities List ( **NPL** ). Many states maintain analogous programs.

CERCLA s central provisions authorize EPA to clean up these sites using money from the so-called Superfund (generated by tax revenues) and then to recover the cleanup costs from so-called potentially responsible parties ( **PRPs** ) who have contributed to the contamination. In addition, private parties may implement EPA-approved cleanups.

Under CERCLA a PRP s liability is strict, joint, several and retroactive; in other words, liability may be imposed regardless of fault, may relate to historical activities or contamination, may require one party to bear the costs of the entire cleanup and has no requirement that the party s activities or hazardous substances be proven to have actually caused the contamination. Categories of liable parties under CERCLA include current owners, lessees and operators, former owners, lessees and operators, waste generators or arrangers, and transporters. Accordingly, it is possible for us to become subject to investigation or cleanup obligations (or related third-party claims) in connection with onsite or offsite contamination issues, including those caused by predecessors.

CERCLA contains a cost recovery provision generally authorizing one PRP to initiate a private claim against another PRP for cleanup liabilities.

The magnitude of the liability and the cost of complying with environmental laws with respect to particular sites cannot be predicted with certainty due to the lack of specific information available, the potential for new or changed laws and regulations, the development of new remediation technologies, and the uncertainty regarding the timing of remedial work. As a result, we may incur material liabilities or costs related to environmental matters in the future and such environmental liabilities or costs could adversely affect our results and financial condition. In addition, there can be no assurance that changes in laws or regulations would not result in additional costs and affect the manner in which we are required to conduct our operations.

***Other U.S. environmental, health and safety laws***

We are or may be required to comply with a number of additional federal, state and local environmental, health, safety and similar requirements in addition to those discussed above, including, for example, the Resource Conservation and Recovery Act ( **RCRA** ), the Occupational Safety and Health Act ( **OSHA** ), the Endangered Species Act ( **ESA** ) and others.

**E.U. REACH**

On June 1, 2007, the E.U. enacted regulations on the registration, evaluation, authorization and restrictions on the use of chemicals, known as REACH. The purpose of REACH is to ensure a high level of protection of human health and the environment, including the promotion of alternative methods of assessment of hazards of chemical substances.

REACH requires foreign manufacturers importing their chemical substances into the E.U., as well as E.U. manufacturers producing such substances in quantities of one tonne or more per year, to register these substances with the European Chemicals Agency ( **ECHA** ) and provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. To comply with REACH requirements, we have created dedicated internal working groups, procured external consultants advice and budgeted for REACH procedures expenses. Prior to December 1, 2008, we pre-registered with the ECHA substantially all of the substances that we intended to export to or produce in the E.U. As a next step, we successfully registered with the ECHA the substances that we export to or produce in the E.U. in an amount over 1,000 tonnes per year, and which are subject to REACH registration, namely: ferroalloys, coke-chemicals and pig iron exported to the E.U. This registration was completed prior to December 1, 2010 in compliance with the REACH implementation schedule. Currently, we are preparing for the

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next stage of the registration process. The next registration under REACH for substances in the 100-1,000 tonnes per year tonnage band is to be completed prior to June 1, 2013. We intend to complete the registration process within the relevant deadlines.

**Item 4A.** ***Unresolved Staff Comments***

None.

**Item 5.** ***Operating and Financial Review and Prospects***

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other information in this document. This Item 5 contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including the risks described in Item 3. Key Information Risk Factors and under the caption Cautionary Note Regarding Forward-Looking Statements.*

In this Item 5, the term domestic describes sales by a subsidiary within the country where its operations are located. The term export describes cross-border sales by a subsidiary regardless of its location. See note 24 to the consolidated financial statements.

**History of Incorporation**

Mechel OAO was incorporated on March 19, 2003, as a joint-stock company holding shares and interests in the charter capitals of various mining and steel companies owned by Igor Zyuzin, Vladimir Iorich and companies controlled by them. These individuals acted in concert from 1995 until December 2006 pursuant to an agreement which required them to vote in the same way. During the period from March through December 2006, Mr. Iorich disposed of his entire interest in Mechel OAO to Mr. Zyuzin, and the agreement terminated on December 21, 2006.

**Business Structure**

***Segments***

We have organized our businesses into four segments:

- the mining segment, comprising the production and sale of coal (metallurgical and steam), coke and chemical products, iron ore and limestone, which supplies raw materials to our steel segment and also sells substantial amounts of raw materials to third parties, and includes logistical assets, such as our seaports on the Sea of Japan and on the Sea of Azov and our railway transportation assets;

- the steel segment, comprising the production and sale of semi-finished steel products, carbon and special long products, carbon and stainless flat products, high value-added metal products, including wire products, forgings and stampings, and our river port on the Kama River, a tributary of the Volga River;

- the ferroalloys segment, comprising the production and sale of nickel ore, low-ferrous ferronickel, ferrochrome and ferrosilicon, which supplies raw materials to our steel segment and also sells substantial amounts of raw materials to third parties; and

- the power segment, comprising power generating facilities, which supply power to our mining, steel and ferroalloys segments and also sells a portion of the power generated to third parties, and a power distribution company.

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The table below sets forth by segment our key mining, steel, ferroalloys and power subsidiaries, presented in chronological order by date of acquisition.

| Name | Location of Assets | Product/Business | Date Control Acquired | Voting Interest[1]% |
|---|---|---|---|---|
| ***Mining Segment*** | | | | |
| Southern Kuzbass Coal Company | Russia | Coking coal, steam coal, anthracite and PCI | January 1999 | 96.6% |
| Tomusinsky Open Pit | Russia | Coking coal, steam coal | January 1999 | 74.5% |
| Korshunov Mining Plant | Russia | Iron ore concentrate | October 2003 | 85.6% |
| Port Posiet | Russia | Seaport: coal warehousing and loading | February 2004 | 97.1% |
| Mechel Coke | Russia | Coke and chemical products | June 2006 | 100.0% |
| Moscow Coke and Gas Plant | Russia | Coke and chemical products | October 2006 | 99.5% |
| Yakutugol[2] | Russia | Coking coal, steam coal | October 2007 | 100.0% |
| Port Temryuk | Russia | Seaport: coal and metal transshipment | March 2008 | 100.0% |
| Mechel Bluestone Inc. | United States | Coking coal, steam coal | May 2009 | 100.0% |
| ***Steel Segment*** | | | | |
| Chelyabinsk Metallurgical Plant | Russia | Semi-finished steel products, carbon and stainless long and flat steel products | December 2001 | 94.2% |
| Vyartsilya Metal Products Plant | Russia | Wire products | May 2002 | 93.3% |
| Beloretsk Metallurgical Plant | Russia | Long steel products, wire products | June 2002 | 91.5% |
| Urals Stampings Plant | Russia | Stampings and forgings | April 2003 | 93.8% |
| Mechel Nemunas | Lithuania | Wire products | October 2003 | 100.0% |
| Izhstal | Russia | Carbon and special steel long products, seized rolling and wire products | May 2004 | 90.0% |
| Port Kambarka | Russia | River port | April 2005 | 90.4% |
| HBL Holding | Germany | Steel trading and distribution, servicing, cutting and processing steel products, warehousing system | September 2008 | 100.0% |
| Donetsk Electrometallurgical Plant | Ukraine | Semi-finished steel products and long steel products | December 2011 | 100.0% |
| ***Ferroalloys Segment*** | | | | |
| Southern Urals Nickel Plant | Russia | Ferronickel | December 2001 | 84.1% |
| Bratsk Ferroalloy Plant | Russia | Ferrosilicon | August 2007 | 100.0% |
| Oriel Resources | Russia, Kazakhstan | Chrome and nickel mining and processing | April 2008 | 100.0% |
| Tikhvin Ferroalloy Plant | Russia | Ferrochrome | April 2008 | 100.0% |
| ***Power Segment*** | | | | |
| Southern Kuzbass Power Plant | Russia | Electricity generation | April 2007 | 98.3% |
| Kuzbass Power Sales Company | Russia | Electricity distribution | June 2007 | 72.1% |

(1) The percentages provided in this table are as of December 31, 2012. Some of our Russian subsidiaries have preferred shares outstanding that have voting rights commensurate with common shares if dividends on those shares have not been paid. We have calculated voting interests by including these preferred shares for subsidiaries where dividends have not been paid.

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(2) Effective as of the end of the first quarter of 2008, the subsoil license to the Elga coal deposit was transferred from Elgaugol to Yakutugol. Elgaugol was liquidated in September 2009.

***Intersegment sales***

We are an integrated mining, steel, ferroalloys and power group. Our group companies supply materials to other companies in the same reporting segment or different reporting segments. For example, for the year ended December 31, 2012:

- The mining segment supplied approximately 8% of the steel segment s iron ore concentrate requirements, 100% of the steel segment s coke requirements, 100% of the power segment s coal requirements and approximately 63% of the ferroalloys segment s coal requirements;
- The ferroalloys segment supplied approximately 93% of the steel segment s requirements in ferrochrome, ferrosilicon and ferronickel;
- The mining segment supplied approximately 92% of coke for use in the production of ferronickel, ferrochrome and ferrosilicon by the ferroalloys segment;
- The steel segment supplies wires, ropes, wire products and other metal products to the mining segment for use in its day-to-day operations; and
- The power segment supplied approximately 21% of our group s overall electricity requirements.

The prices at which we record these transfers are based on market prices, and these transactions are eliminated as intercompany transactions for the purposes of our consolidated financial statements. For the purposes of the period-on-period discussion of the results of operations by segments, such transfers are included in segment revenues and cost of goods sold.

***Recent acquisitions***

Set out below are our key acquisitions during the periods under review in this section. For more detail see note 3 to the consolidated financial statements. The financial information for the periods presented herein may not be directly comparable from period to period due to these acquisitions.

*Laminorul Plant.* Laminorul Plant is a steel plant located in Braila (Romania) and listed on the Bucharest Stock Exchange, RASDAQ market. On February 25, 2010, we acquired 100% of shares of Donau Commodities S.R.L. which holds 90.9% of shares of Laminorul Plant for consideration of $11.9 million. In February 2013, we sold 90.9% of shares of Laminorul Plant together with other our assets in Romania. See also Item 3. Key Information Recent Developments.

*Ramateks.* Ramateks is a Turkish steel trading group engaged in the distribution of construction and stainless steel long products as well as other types of steel products. We acquired 100% of Ramateks in June 2010 for $3.0 million.

*Femax.* Femax is a trading company operating in the Czech and Slovak markets, selling steel and steel products and providing a number of services. We acquired 95.0% of Femax in July 2010 for $1.9 million.

*Toplofikatsia Rousse.* Toplofikatsia Rousse is a power plant located on the bank of the Danube River in close proximity to the harbor of Rousse, Bulgaria. We acquired a 49% stake in Toplofikatsia Rousse in December 2007 for $73.5 million. We increased our stake in Toplofikatsia Rousse to 100% by purchasing the remaining stake of 51% in December 2010 for approximately $71.9 million. In December 2012, we signed an agreement to sell 100% of shares of Toplofikatsia Rousse and we expect the transaction to close in May 2013. See also Item 3. Key Information Recent Developments.

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*Donetsk Electrometallurgical Plant*. Donetsk Electrometallurgical Plant is a steel plant located in Donetsk, Ukraine. We acquired 100% of shares of Donetsk Electrometallurgical Plant in December 2011 for $537 million to be paid in monthly installments during the period from December 2011 to December 2018. Donetsk Electrometallurgical Plant specializes in the production of continuous cast billets and rolled round billets from high-quality grades of steel with thermal treatment.

*Cognor Stahlhandel.* Cognor Stahlhandel is a distributor of steel products in Central and Eastern Europe. We acquired a 100% stake of Cognor Stahlhandel in September 2012 for $29.1 million. In January 2013, Cognor Stahlhandel GmbH was renamed to Mechel Service Stahlhandel Austria GmbH.

*Lomprom Rostov*. Lomprom Rostov LLC is a scrap collecting and processing company located in the Rostov region. We acquired 100% of Lomprom Rostov LLC in November 2012 for $0.1 million.

***Bluestone acquisition***

In May 2009, we acquired, through Mechel Bluestone Inc., a newly formed Delaware corporation, 100% of the shares and interests in the companies conducting the coking coal business of Bluestone Coal Corp. in West Virginia. The aggregate consideration was $436.4 million paid in cash, approximately 83.3 million of our preferred shares and two contingent payments (as described below), less the amount exceeding the target debt of $132.0 million of the acquired business. The first contingent payment was agreed to be a contingent share value right ( **CVR** ) that would guarantee a target total shareholder return from the preferred shares after five years from the closing date of the acquisition. Any potential CVR cash payment due to the actual total return from the preferred shares being less than or equal to the target return was to be paid on the fifth anniversary of the closing date and was to equal the amount by which the target value exceeded the sum of the aggregate market value of the preferred shares and all dividends received. The starting target value was set at $986.1 million, which could be increased up to $1,585.0 million to reflect additional tonnes of reserves and resources in excess of certain levels, which were to be identified through additional drilling within two years of the closing date and verified by an independent engineer, and decreased by the amount of any damages (capped at $200.0 million for CVR purposes) and set-offs effected by Mechel. The starting target value of the CVR was increased by the parties by $3.5 million in June 2010 as a result of an agreement to settle a third-party litigation. Mechel Mining guaranteed the obligations of our subsidiaries who undertook to make the CVR payment. The CVR payment obligation was further supported by a pledge of the shares of Mechel Bluestone Inc. and its subsidiaries. The second contingent payment is a contingent cash payment to be made within five years from the closing date based on additional coal reserves and resources identified within two years under a planned drilling program and verified by an independent engineer. The additional tonnes are to be paid for at the price of $3.04 per tonne if the payment occurs on the fifth anniversary of the closing date, and the price is discounted in the case of earlier payment. The drilling program was conducted through July 2011 and in September 2011 we received a letter prepared by Weir International, Inc., an independent engineer. The letter appears to state that approximately 54.8 million tonnes of additional coal resources were identified pursuant to the drilling program. Based on our review of the letter, we believe that the contents of the letter do not support its conclusions, and for that and a number of other reasons the letter is deficient and fails to satisfy the contractual requirements for establishing the second contingent payment. The sellers have expressed disagreement with our view of the Weir letter and we have requested more supporting data and information in order to further evaluate the results of the drilling program. Mechel Mining guaranteed the obligations of our subsidiaries who undertook to make the second contingent cash payment in the amount of $1.0 billion. The total fair value of the purchase consideration at the closing date amounted to $1,447.2 million. The amount recorded as a liability in respect of the drilling program was $25.7 million as of December 31, 2012.

We completed the listing of the preferred shares on the New York Stock Exchange ( **NYSE** ) in May 2010. In March 2011, the market value of the preferred shares distributed as part of the consideration to the former owners of Bluestone plus the cumulative dividends due to them exceeded $1,787.1 million, as calculated per the terms of the merger agreement, which resulted in the automatic extinguishment of the CVR. Following the

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automatic extinguishment of the CVR, we executed an amendment to the merger agreement which confirmed that our obligations in relation to the CVR contingent payment, pledge agreements relating to all the outstanding stock and capital membership in the Bluestone companies in favor of the Seller, and the CVR guarantee issued by Mechel Mining have been released. In addition, Mr. Zyuzin has been released from obligation to vote his common shares in favor of the dividends on preferred shares.

**Factors Affecting Our Results of Operations and Financial Condition**

***Cyclical nature of business and impact of macroeconomic factors***

Our mining and ferroalloys businesses sell significant amounts of coal, iron ore and ferroalloys to third parties and our revenues depend significantly on these sales. Cyclical and other changes in the world market prices of these products affect the results of our mining and ferroalloys operations. The changes in these prices result from factors which are beyond our control, such as market supply and demand. The global coal, iron ore and ferroalloys supply and demand balance is strongly influenced by interdependent global economic and industrial demand cycles, as well as supply chain-related constraints such as shipping capacity, availability of rolling stock, transportation bottlenecks, production disruptions and natural disasters. Prices of the products of our mining and ferroalloys business have varied significantly in the past and could vary significantly in the future. See Price trends for products below. See also Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects.

The steel industry is highly cyclical in nature because the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which we sell our products, as well as in the global economy. The prices of our steel products are influenced by many factors, including demand, worldwide production capacity, capacity utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices also typically follow trends in raw materials prices and increases in market prices for steel may lag behind increases in production costs, including raw materials.

Demand for steel, particularly long steel products in which we believe we are the most competitive in the Russian market, is closely tied to the construction industry in the markets in which we sell our products. The construction business in Russia, the principal market for our products, was severely impacted by the global financial crisis and the sharp economic slowdown in Russia. As a result of the critical role of steel in infrastructural and overall economic development, the steel industry tends to track macroeconomic factors such as gross domestic product ( **GDP** ) and industrial output.

The global financial crisis and sharp economic slowdown which started in 2008 seriously impacted global GDP growth in 2008 and 2009 and the recovery was slow in 2010. Global real GDP grew at 4.3% in 2010, at 2.7% in 2011 and at 2.3% in 2012, according to the World Bank. According to Rosstat, Russia recorded GDP growth of 4.3% in 2010, of 4.3% in 2011 and of 3.4% in 2012. The slowdown in economic growth and severe constraints in capital spending, both globally and in Russia, led to poor demand for our products and a substantial decrease in the prices for our products in 2009. We generally observed signs of improvement in our core markets in 2010. Growth continued during the first nine months of 2011, until another wave of slowdown of the global economy led to a decline in demand and prices for our products. Although the beginning of 2012 demonstrated some optimism in our key markets, debt problems in Europe and slowing growth in China in the second half of 2012 resulted in weak demand and low prices. See Price trends for products.

***Trade and competition***

Mining products and many types of steel products are considered commodities and treated as fungible in the world markets. As such, we compete with steel producers and mining companies with operations in different

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countries. The main competitive advantages that steel producers can secure are based on quality and production cost. Generally, steel producers in economically developed regions compete primarily based on quality of steel, while we and other steel producers in developing countries compete in the international market based primarily on price. With respect to our mining products, such as iron ore, nickel and coal, quality, production costs and transportation capabilities are key areas where companies seek a competitive advantage.

As the production and consumption of steel are closely linked to economic development and industrial capacity in general, many countries have enacted measures to protect their domestic steel industries from international competition, particularly from countries with a lower average cost of production. Several key steel importing countries currently have import restrictions in place on steel products or may introduce them in the future. See Risk Factors Risks Relating to Our Business and Industry We face certain trade restrictions in the export of certain of our steel and ferroalloy products to the E.U.

We benefit from import tariffs that Russia has in place for certain steel products. See Risk Factors Risks Relating to Our Business and Industry We benefit from Russia s tariffs and duties on imported steel, many of which have been reduced upon Russia s WTO membership and may be eliminated in the future.

***Consolidation trends in the steel and mining industries***

The global financial crisis sharply slowed the pace of consolidation in the steel industry. Despite demand growth witnessed during 2010, 2011 and 2012, growth in steel-making capacity still exceeds steel demand. There is now significant over-capacity in the global steel sector which is putting pressure on operators profitability. Future consolidation in the steel industry should enable steel producers to maintain more consistent performance through cycles in the steel industry by achieving greater efficiency and economies of scale.

We, along with other Russian steel producers, tend to focus on vertical integration rather than consolidation, which ensures access to a stable supply of raw materials, particularly coking coal and iron ore. Our vertical integration helps us to better manage the effects of raw materials supply constraints and also provides us with an opportunity to capture higher margins in sales by our mining segment to third parties.

The mining industry has also experienced consolidation in recent years. In 2010, INR Energy, a privately held coal company, sold its West Virginia coal mining operations to Cliffs Natural Resources, an international mining company. Cumberland Resources, a U.S. privately held coal producer, was acquired by Massey Energy, a U.S. company and one of the largest producers of Central Appalachian coal. In 2011, there was another series of large-scale transactions. Walter Energy, Inc., a producer of coking coal in southern Appalachia, acquired Canada s Western Coal Corp. to become one of the world s largest producers of coking coal. Alpha Natural Resources acquired Massey Energy Co., creating the world s third largest coking coal producer behind BHP Billiton-Mitsubishi Alliance and Teck Resources Ltd. Arch Coal Inc. acquired International Coal Group, a U.S. coal producer in the Appalachia region, making Arch Coal the second largest U.S. producer of coking coal. Peabody Energy, Inc. acquired a controlling interest in Macarthur Coal Ltd., the world s largest producer of seaborne low-volatile PCI. China s Winsway Coking Coal Holdings Ltd. and Japan s Marubeni Corp. acquired Canadian metallurgical coal producer Grande Cache Coal Corp. Whitehaven Coal has agreed to buy another Australian coal company, Aston Resources, to create one of Australia s largest coal producers. Yanzhou Coal Mining Co., China s fourth biggest coal producer, bought Gloucester Coal Ltd. to gain more mines and port access in Australia.

Consolidation among suppliers in the mining industry has led to a stronger bargaining position among mining companies vis-à-vis steel producers. As we are vertically integrated in both the upstream and downstream sides of the mining and steel segments, we are not as affected by consolidation among suppliers as some of our competitors.

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***Price trends for products***

*Coking coal and steam coal*

Average contract prices for premium hard coking coal in calendar year 2011 were $289 per tonne (FOB Australia), up from $191 per tonne (FOB Australia) in calendar year 2010, according to CRU. Previously, the contract price for premium hard coking coal was $129 on the same basis, in JFY 2009/2010, according to CRU. The hard coking coal spot price increased during the beginning of 2010 and reached $250 per tonne (FOB Australia) in April 2010. By the end of 2010, however, prices had declined to $225 per tonne (FOB Australia), according to CRU. There was no significant volatility in spot prices in 2010 due to the stable development of global steel industry. Minor price fluctuation occurred due to seasonal factors and traders stocking activity. At the beginning of 2011, hard coking coal spot prices increased sharply to $350 per tonne (FOB Australia) due to supply disruptions caused by heavy floods in Queensland, Australia, according to CRU. Since then, coal supply has normalized and spot prices decreased to $305 per tonne in June 2011, according to CRU. In the final quarter of 2011, the price declined sharply to $235 per tonne in November, according to CRU. In the first quarter of 2012, the contract price was set at $235 per tonne, while spot prices declined from $219 per tonne (FOB Australia) in January to $210 per tonne (FOB Australia) in March due to sluggish demand, according to CRU. As a result, the contract price for the second quarter of 2012 was reduced to $210 per tonne. Nevertheless, industrial actions at BMA operated mines led to an increase in spot prices to $224 per tonne in June, and the contract price for third quarter was settled at $225 per tonne, according to CRU. In the third quarter of 2012, the spot market for hard coking coal became oversupplied and the price declined sharply to $140 per tonne (FOB Australia) in September. As a result, the contract price for the last quarter of 2012 was set at $170 per tonne, according to CRU. The supply-side has been forced to react to significantly lower prices and output reductions occurring in China, the United States and Australia. Furthermore, demand strengthened and spot prices slightly increased to $157 per tonne (FOB Australia) in December 2012, according to CRU.

Prices for steam coal reached $86 per tonne (CIF Amsterdam/Rotterdam/Antwerp) at the beginning of 2010 and then declined to $73 per tonne (CIF Amsterdam/Rotterdam/Antwerp) by the end of the first quarter of 2010, according to Platts. Prices increased further during 2010 and reached $122 per tonne (CIF Amsterdam/Rotterdam/Antwerp) at end of 2010, according to Platts. The main reason for this price growth was the stable growth of the global economy. In the first six months of 2011, prices for steam coal fluctuated around 2010 year-end levels, according to Platts. The price for steam coal was $123 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in June 2011, according to Platts. In the final quarter of 2011, steam coal prices decreased to $111 per tonne in December, according to Platts. During the first half of 2012, steam coal prices declined from $106 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in January to $87 per tonne in June, according to Platts. In the second half of 2012, prices for steam coal were generally stable fluctuating around $90 per tonne, according to Platts.

*Iron ore*

Average contract prices for iron ore in calendar year 2012 were $120 per tonne, down from $163 in 2011, but still up from $106 per tonne in 2010 (Southern System fines, 65% elemental iron, 6% moister, FOB Brazil), according to CRU. Spot prices began to rise in the middle of 2009, when growing global production of steel coupled with strong demand for imported iron ore from China pushed prices to the level of $105 per tonne (CFR China) by the end of 2009 and $142 per tonne (CFR China) by the end of the first quarter of 2010, according to CRU. Prices increased further during 2010 and reached $186 per tonne (CFR China) in April, and after a decline in the middle of the year prices begin to rise again and reached $173 per tonne (CFR China) at end of 2010, according to CRU. The main reasons for price growth in 2010 were stable demand for ore imports from China and the Indian governments measures restricting iron ore exports. In the first six months of 2011, iron ore prices continued their surge as a result of strong Chinese demand. In the fourth quarter of 2011, iron ore spot prices began to decline reaching the bottom at $139 per tonne (CFR China) in December. During the first half of 2012, prices adjusted upwards and were generally stable fluctuating around $147 per tonne (CFR China), according to CRU. In the third quarter of 2012, spot prices for iron ore fell to $108 per tonne (CFR China) in September due

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to weak steel market in China and intensified destocking of steel-making raw materials at mills. Tighter supplies, combined with an uptick in interest from China, triggered increases for iron ore prices to $135 per tonne (CFR China) in December 2012, according to CRU. Average spot prices in 2012 were $135 per tonne (CFR China), down from $176 per tonne in 2011 and $153 per tonne in 2010, according to CRU.

*Coke*

Growing demand from the steel industry and increasing coking coal prices led to a recovery in coke prices since the second half of 2009. By the end of 2010, the Russian domestic price for coke reached 11,720 rubles per tonne (including VAT, FCA basis), according to Metal-Courier, and the export price for Chinese coke grew to $450 per tonne (12.5% ash, FOB basis), according to CRU. In the first six months of 2011, prices for coke increased rapidly and then adjusted downwards, following the trend in the coking coal price. The export price for Chinese coke was $380 per tonne (12.5% ash, FOB basis) in December 2011, according to CRU, while the Russian domestic price for coke was 10,442 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. Throughout 2012, Russian domestic prices for coke were decreasing due to sluggish demand and falling coking coal prices and reached 7,588 rubles per tonne (including VAT, FCA basis) in December, according to Metal-Courier. The export price for Chinese coke also declined from $370 per tonne (12.5% ash, FOB basis) in January to $265 per tonne (12.5% ash, FOB basis) in December, according to CRU.

*Nickel*

On the LME nickel prices increased during 2010 and reached $24,111 per tonne at the end of 2010, according to CRU, since the demand for nickel in Asia and in the rest of the world was steadily improving. Nickel prices reached a high of $28,252 per tonne in February 2011, and then declined through the end of the year due to increased supply and slow demand growth. Nickel prices declined to $18,154 per tonne in December 2011, according to CRU. In February 2012, nickel prices increased to $20,465 per tonne. The rally was supported by positive news on China. Then the prices declined to $15,658 per tonne due to rising inventories on the LME and an increasing amount of uncertainty about a surplus in primary nickel supply, European demand and prospects for growth in China. Then the prices rebounded back to $17,407 per tonne in December 2012 driven by QE3 and China s approval of a $157 billion infrastructure program.

*Ferrochrome*

Ferrochrome prices increased during 2010 and reached $2,668 per tonne of chrome content (spot delivered Europe) by the end of 2010, according to CRU, since the demand in all the regions has substantially improved. Ferrochrome prices declined during 2011 due to excessive material supply to the market and slow demand growth. Ferrochrome prices declined to $2,315 per tonne of chrome content in December 2011, according to CRU. At the beginning of 2012, ferrochrome prices slightly increased, but by the end of the year declined to $2,116 per tonne of chrome content due to surplus on the world market, according to CRU.

*Ferrosilicon*

Ferrosilicon prices increased during 2010 and reached $1,625 per tonne (75% Si, CIF Japan) by the end of 2010, according to CRU. The surge in ferrosilicon prices in the last months of 2010 was driven by curtailments in power supplies of Chinese ferrosilicon producers, due to the Chinese governments five-year energy-saving plan. Ferrosilicon prices were relatively stable during the first nine months of 2011, according to CRU. Prices decreased in the final quarter of 2011 due to decreased demand in China and in international markets. Ferrosilicon prices declined to $1,425 per tonne (75% Si, CIF Japan) at the end of 2011, according to CRU. In the second quarter of 2012, ferrosilicon prices slightly increased to $1,445 per tonne (75% Si, CIF Japan) in May and then began to fall due to slow demand and reached $1,340 per tonne (75% Si, CIF Japan) in October. By the end of the year ferrosilicon prices grew to $1,375 per tonne (75% Si, CIF Japan) as electricity costs in China increased, according to CRU.

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*Steel*

Prices for steel products increased during 2010 and reached $639 per tonne for rebar in the Russian domestic market and $600 per tonne for square billets (Russian export) at the end of 2010, according to Metal-Courier. The price increase was driven by increasing raw materials costs and steadily improving demand. Russian domestic rebar consumption grew by 23.6% in 2010, according to Metal-Courier. In 2011, steel prices were generally higher as compared to 2010. During 2011, steel prices generally increased until August. In August 2011, the price for rebar reached $859 per tonne in the Russian domestic market and the export price for square billets increased to $681 per tonne, according to Metal-Courier. In the final quarter of 2011, steel prices declined on the back of deteriorating demand. The Russian domestic price for rebar declined to $694 per tonne and the export price for square billets declined to $591 per tonne in December 2011, according to Metal-Courier. In the first quarter of 2012, the price for rebar reached $752 per tonne in the Russian domestic market and the export price for square billets increased to $609 per tonne, according to Metal-Courier. The export price for square billets decreased further during 2012. In the fourth quarter of 2012, steel prices declined on the back of deteriorating demand. The Russian domestic price for rebar declined to $646 per tonne and the export price for square billets declined to $513 per tonne in December 2012, according to Metal-Courier.

***Freight costs***

During the periods under review, ocean freight rates on the basic world routes remained volatile. In 2010, time-charter rates on Panamax type vessels fluctuated within the range from $20,000 to $30,000 per day and by the end of the year decreased to $12,000-$15,000 per day due to an excess supply of new vessels entering the market. In 2011, an average time-charter rate on Panamax type vessels also amounted to $12,000-$15,000 per day. In 2012, ocean freight rates were generally weak with Panamax vessel time charter averages peaking only at a high of $13,877 per day and falling to a low of $3,389 per day with an annualized average of $7,684 per day. An increase in ocean freight rates may be caused by the U.S. dollar falling against world currencies, an increase in world oil prices, as well as seasonal factors. Such an increase in ocean freight rates will affect our freight costs.

Freight costs are a significant concern for Russian steel producers and mining companies, as distances in Russia are vast and major steel producing and mining areas tend to be located far from developed year-round port facilities.

***Exchange rates***

Our products are typically priced in rubles for Russian and the CIS sales and in U.S. dollars or euros for international sales. Our direct costs, including raw materials, labor and transportation costs are largely incurred in rubles and other local currencies, while other costs, such as interest expenses, are incurred in rubles, euros and U.S. dollars. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues.

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**Results of Operations**

The following table sets forth our consolidated statement of income data for the years ended December 31, 2012, 2011 and 2010.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2010 | |
| Revenues | Amount | % of Revenues | Amount | % of Revenues | Amount | % of Revenues |
| | (In thousands of U.S. dollars, except for percentages) | | | | | |
| Revenue, net | 11,274,933 | 100.0% | 12,541,145 | 100.0% | 9,746,646 | 100.0% |
| Cost of goods sold | (8,024,210) | (71.2)% | (8,236,807) | (65.7)% | (6,179,612) | (63.4)% |
| Gross profit | 3,250,723 | 28.8% | 4,304,338 | 34.3% | 3,567,034 | 36.6% |
| Selling, distribution and operating expenses | (4,148,598) | (36.8)% | (2,464,234) | (19.6)% | (2,034,822) | (20.9)% |
| Operating (loss) income | (897,875) | (8.0)% | 1,840,104 | 14.7% | 1,532,212 | 15.7% |
| Other income and (expense), net | (479,426) | (4.3)% | (667,537) | (5.3)% | (563,008) | (5.8)% |
| (Loss) income from continuing operations, before income tax and discontinued operations | (1,377,301) | (12.2)% | 1,172,567 | 9.3% | 969,204 | 9.9% |
| Income tax expense | (179,155) | (1.6)% | (360,750) | (2.9)% | (276,630) | (2.8)% |
| (Loss) income from continuing operations | (1,556,456) | (13.8)% | 811,817 | 6.5% | 692,574 | 7.1% |
| Net loss from discontinued operations, net of income tax | (108,429) | (1.0)% | (8,370) | (0.1)% | (600) | 0.0% |
| Net (loss) income | (1,664,885) | (14.8)% | 803,447 | 6.4% | 691,974 | 7.1% |
| Less: Net loss (income) attributable to non-controlling interests | 317 | 0.0% | (75,562) | (0.6)% | (34,761) | (0.4)% |
| Net (loss) income attributable to shareholders of Mechel OAO | (1,664,568) | (14.8)% | 727,885 | 5.8% | 657,213 | 6.7% |
| Less: Dividends on preferred shares | (79,056) | (0.7)% | (78,281) | (0.6)% | (8,780) | (0.1)% |
| Net (loss) income attributable to common shareholders of Mechel OAO | (1,743,624) | (15.5)% | 649,604 | 5.2% | 648,433 | 6.7% |

***Year ended December 31, 2012 compared to year ended December 31, 2011***

*Net revenues*

Consolidated revenues decreased by $1,266.2 million, or 10.1%, to $11,274.9 million in the year ended December 31, 2012 from $12,541.1 million in the year ended December 31, 2011.

The sales decrease was due to a decrease of sales prices across all our major segments, as well as a decrease of coking coal, nickel and ferrosilicon sales volumes in our mining and ferroalloys segments. This decrease was partially offset by the impact on our consolidated revenues of our acquisitions of Cognor Stahlhandel and Lomprom Rostov in the amount of $79.1 million in the year ended December 31, 2012.

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The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

| Net Revenues by Segment | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| | (In thousands of U.S. dollars, except percentages) | |
| **Mining segment** | | |
| To third parties | 3,297,560 | 4,173,799 |
| To ferroalloys segment | 97,066 | 175,829 |
| To power segment | 44,801 | 45,223 |
| To steel segment | 575,627 | 797,178 |
| Total | 4,015,054 | 5,192,029 |
| **Steel segment** | | |
| To third parties | 6,803,413 | 7,154,417 |
| To ferroalloys segment | 6,377 | 7,062 |
| To power segment | 148,265 | 146,875 |
| To mining segment | 113,265 | 156,479 |
| Total | 7,071,320 | 7,464,833 |
| **Ferroalloys segment** | | |
| To third parties | 416,721 | 475,254 |
| To power and mining segments | 194 | 1,047 |
| To steel segment | 87,218 | 198,144 |
| Total | 504,133 | 674,445 |
| **Power segment** | | |
| To third parties | 757,239 | 737,675 |
| To steel segment | 317,826 | 321,021 |
| To ferroalloys segment | 85,650 | 104,768 |
| To mining segment | 80,398 | 81,018 |
| Total | 1,241,113 | 1,244,482 |
| Eliminations | 1,556,687 | 2,034,644 |
| Consolidated revenues | 11,274,933 | 12,541,145 |
| % from mining segment | 29.2% | 33.3% |
| % from steel segment | 60.3% | 57.0% |
| % from ferroalloys segment | 3.7% | 3.8% |
| % from power segment | 6.7% | 5.9% |

***Mining segment***

Our total mining segment sales decreased by $1,177.0 million, or 22.7%, to $4,015.1 million in the year ended December 31, 2012 from $5,192.0 million in the year ended December 31, 2011.

Coking coal concentrate sales to third parties decreased by $770.5 million, or 34.7%, to $1,453.0 million in the year ended December 31, 2012 from $2,223.4 million in the year ended December 31, 2011, as a result of sales prices decrease of $614.1 million and sales volumes decrease of $156.4 million. The sales prices decrease is explained by the sharp decrease in international coking coal prices. In the first quarter of 2012, hard coking coal spot prices decreased to $215 per tonne (FOB Australia), according to Platts. During the whole year of 2012 the coal market

remained well-balanced. Spot prices increased to $221 per tonne in the second quarter of 2012, according to Platts. The price declined to $175 and $155 in third and fourth quarters of 2012, respectively, according to Platts.

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The volume of coking coal concentrate sold to third parties decreased by 678 thousand tonnes, or 7.0%, to 8,957 thousand tonnes in the year ended December 31, 2012 from 9,635 thousand tonnes in the year ended December 31, 2011. The decrease in sales volumes during the period was mainly due to lower sales from Bluestone, which corresponded to the general trend of lower exports of coking coal from the United States in 2012. Reduction of the United States exports was mainly due to lower demand from consumers in Europe, which accounts for most of the exports, as well as in Latin America, Japan and South Korea.

The volume of coking coal sold to third parties increased at Yakutugol and Southern Kuzbass Coal Company and decreased at Bluestone. Yakutugol s coking coal sales volumes increased by 362 thousand tonnes, or 8.0%, to 4,903 thousand tonnes in the year ended December 31, 2012 from 4,541 thousand tonnes in the year ended December 31, 2011. Southern Kuzbass Coal Company s coking coal sales volumes increased by 128 thousand tonnes, or 5.3%, to 2,551 thousand tonnes in the year ended December 31, 2012 from 2,423 thousand tonnes in the year ended December 31, 2011. Bluestone s coking coal sales volumes to third parties decreased by 1,138 thousand tonnes, or 43.1%, to 1,502 thousand tonnes in the year ended December 31, 2012 from 2,640 thousand tonnes in the year ended December 31, 2011.

Coke sales to third parties decreased by $83.3 million, or 22.2%, to $291.4 million in the year ended December 31, 2012 from $374.7 million in the year ended December 31, 2011, as a result of a decrease of $108.9 million in sales prices that was partially offset by an increase of $25.6 million in sales volumes. The decrease in sales prices was driven by the decrease in the price of coking coal, the key raw material in the production of coke. The sales volume increase is explained by the increase of coke sales to the Russian market following the decrease of sales to the ferroalloys segment as a result of the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012.

Coke supplied to the steel segment decreased by $85.5 million, or 14.4%, to $509.9 million in the year ended December 31, 2012 from $595.3 million in the year ended December 31, 2011. The decrease of $143.3 million was due to a decrease of sales prices, which was partially offset by a $57.8 million increase in sales volumes. The increase in sales volumes is explained by the increase in pig iron production volumes by 12.0% following the absence of planned repairs of the blast furnace at Chelyabinsk Metallurgical Plant in 2012.

Chemical products sales to third parties decreased by $0.9 million, or 1.2%, to $75.6 million in the year ended December 31, 2012 from $76.5 million in the year ended December 31, 2011, as a result of a decrease in sales prices. Sales prices decreased due to the decrease in the price of coking coal, the key raw material in the production of chemical products.

Anthracite and PCI sales to third parties decreased by $17.8 million, or 2.5%, to $703.0 million in the year ended December 31, 2012 from $720.8 million in the year ended December 31, 2011, as a result of a decrease of $115.7 million in sales prices that was partially offset by an increase of $97.9 million in sales volumes. Sales prices decreased due to the decrease in the price of coking coal, the key raw material in the production of anthracite and PCI. Sales volume increased due to our increasing production volumes of PCI instead of steam coal.

Steam coal sales to third parties decreased by $77.5 million, or 35.1%, to $143.4 million in the year ended December 31, 2012 from $220.8 million in the year ended December 31, 2011, as a result of a decrease of $88.6 million in sales volumes that was partially offset by an increase of $11.2 million in sales prices. Our share of domestic market sales decreased from 58.73% in the year ended December 31, 2011 to 51.38% in the year ended December 31, 2012 as our sales prices in the domestic market are lower than export prices. The average sales price in the domestic market was $48 per tonne on FCA basis but $89 per tonne on FCA basis in the export market for the year ended December 31, 2012. As a result, we experienced an increase in sales prices on steam coal sales to third parties, due to an increase of the share of export as well as supply on the internal market. The decrease in sales volumes was mainly due to the realization of our strategy of increasing PCI production and sales instead of steam coal.

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Steam coal supplied to the power and ferroalloys segments decreased by $29.7 million, or 59.6%, to $20.2 million in the year ended December 31, 2012 from $49.9 million in the year ended December 31, 2011, as a result of a decrease of $8.1 million in sales prices and a decrease of $21.6 million in sales volumes. The sales volumes decrease is explained by the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012.

Sales of iron ore to third parties increased by $74.6 million, or 20.2%, to $444.7 million in the year ended December 31, 2012 from $370.1 million in the year ended December 31, 2011, as a result of an increase of $197.4 million in sales volumes that was partially offset by a decrease of $122.8 million in sales prices. The decrease in sales prices was due to a decrease in international iron ore prices. The year average spot iron ore price (63.5% Fe dry, CIF) decreased by 23% from $176 per tonne in the year ended December 31, 2011 to $135 per tonne in the year ended December 31, 2012, according to CRU. The increase in third-party sales volumes was due to the decrease in intra-group supplies.

Supplies of iron ore to the steel segment decreased by $140.8 million, or 87.5%, to $20.1 million in the year ended December 31, 2012 from $160.9 million in the year ended December 31, 2011, as a result of a decrease of $4.1 million in sales prices and a decrease of $136.7 million in sales volumes. Sales volumes decreased because the share of iron ore consumed at Chelyabinsk Metallurgical Plant produced by Korshunov Mining Plant decreased from 23.1% in the year ended December 31, 2011 to 3.2% in the year ended December 31, 2012 following the increased demand for iron ore in the international markets. Sales prices decreased due to a decrease in the price of iron ore in the Russian market: our average sales prices for iron ore to the third parties on FCA basis decreased by 27.6%.

Excluding intersegment sales, export sales remained stable at the level of 73.0% of mining segment sales in the year ended December 31, 2012, compared to 73.3% in the year ended December 31, 2011.

***Steel segment***

Our steel segment revenues decreased by $393.5 million, or 5.3%, to $7,071.3 million in the year ended December 31, 2012 from $7,464.8 million in the year ended December 31, 2011. Steel segment sales in 2012 in domestic and export markets had different trends: demand in our export market was subdued due to unstable economic and political conditions, while demand in our domestic market was strong. Consumption of steel products in Russia increased by 5.2% in the year ended December 31, 2012 to 44.5 million tonnes from 42.3 million tonnes in the year ended December 31, 2011, according to Metal Expert.

Semi-finished products sales decreased by $136.9 million, or 10.5%, to $1,163.2 million in the year ended December 31, 2012 from $1,300.1 million in the year ended December 31, 2011, as a result of a decrease of $102.5 million in sales prices and a decrease of $34.4 million in sales volumes. Sales prices decreased due to a decrease in the international prices for billets: the billet year average price (square billet, FOB Black Sea) decreased by 11% to $564 per tonne in the year ended December 31, 2012 from $635 per tonne in the year ended December 31, 2011, according to Metal Expert. The decrease of third-party sales volumes was due to the decrease of sales volumes at Donetsk Electrometallurgical Plant following the decrease of its production volumes due to steel scrap shortages in Ukraine and temporary suspension of its operations in the fourth quarter of 2012.

Other long products sales decreased by $152.8 million, or 12.9%, to $1,030.4 million in the year ended December 31, 2012 from $1,183.2 million in the year ended December 31, 2011, as a result of a decrease of $111.1 million in sales prices and a decrease of $41.7 million in sales volumes. The decrease in sales prices was mainly driven by the decrease in the prices of steel-making raw materials (iron ore, coking coal etc.). Sales volumes decreased because of the weakening of demand in the international markets in 2012.

Wire rod sales decreased by $91.0 million, or 42.4%, to $123.3 million in the year ended December 31, 2012 from $214.3 million in the year ended December 31, 2011, as a result of a decrease of $6.4 million in sales

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prices and a decrease of $84.6 million in sales volumes. The decrease in sales prices was driven by a decrease in the international price for wire rod: the wire rod year average price (wire rod, FOB Black Sea) decreased by 6-12% to $611-659 per tonne in the year ended December 31, 2012 from $694-701 per tonne in the year ended December 31, 2011, according to Metal Expert. Sales volumes decreased because of a decrease in production volumes by 26% following the repairs of rolling mill at Beloretsk Metallurgical Plant in 2012.

Stainless flat products sales decreased by $76.9 million, or 34.3%, to $147.2 million in the year ended December 31, 2012 from $224.2 million in the year ended December 31, 2011, as a result of a decrease of $25.7 million in sales prices and a decrease of $51.2 million in sales volumes. The decrease in sales prices was driven by the decrease in domestic prices during 2012: the year average price for stainless flat steel (cold-rolled, 08X18H10T steel grade, 2 mm, Russia domestic, ex-warehouse, excl. VAT) decreased by 20% to $4,269 per tonne in the year ended December 31, 2012 from $5,342 per tonne in the year ended December 31, 2011, according to Metal Expert. Sales volumes decreased due to weakening of the demand in the European market.

Other flat product sales decreased by $26.7 million, or 5.2%, to $488.6 million in the year ended December 31, 2012 from $515.3 million in the year ended December 31, 2011, as a result of a decrease of $59.5 million in sales prices, which was partially offset by an increase of $32.8 million in sales volumes. The decrease in sales prices was driven by a decrease in domestic and international prices during 2012: the year average price for hot-rolled coil (Russia exports, FOB Black Sea) decreased by 17% to $578 per tonne in the year ended December 31, 2012 from $693 per tonne in the year ended December 31, 2011, according to Metal Expert. The increase in sales volumes was due to the increase in sales of flat rolled steel following the acquisition of Cognor Stahlhandel in September 2012.

Wire sales decreased by $48.8 million, or 7.6%, to $593.1 million in the year ended December 31, 2012 from $641.9 million in the year ended December 31, 2011, as a result of a decrease of $40.1 million in sales prices and a decrease of $8.6 million in sales volumes. The decrease in sales prices was driven by the decrease in the prices of wire rod, which is the main input for wire production. Sales volumes decreased because of the weakening of demand in the international markets in 2012.

These negative trends were partially offset by the increase of non-core products and services sales by $155.6 million, or 59.5%, to $417.2 million in the year ended December 31, 2012 from $261.6 million in the year ended December 31, 2011. This increase was due to the increase of scrap metal sales to the related metallurgical plants following the development of our relationships with these plants and the acquisition of Lomprom Rostov in 2012.

Excluding intersegment sales, export sales were 25.0% of steel segment sales in the year ended December 31, 2012, compared to 27.8% in the year ended December 31, 2011. The proportion of our export sales decreased due to the weakening of demand in the European markets in 2012.

***Ferroalloys segment***

Nickel sales to third parties decreased by $89.4 million, or 35.0%, to $165.7 million in the year ended December 31, 2012 from $255.2 million in the year ended December 31, 2011, as a result of a decrease of $45.7 million in sales prices and a decrease of $43.7 million in sales volumes. Sales prices decreased due to the decrease in nickel quotes at the LME, which we use to determine our contract prices. The year average nickel price decreased to $17,526 per tonne in the year ended December 31, 2012 from $22,831 per tonne in the year ended December 31, 2011, according to CRU. Our nickel sales volumes decreased by 1.9 thousand tonnes, or 17.1%, to 9.5 thousand tonnes in the year ended December 31, 2012 from 11.4 thousand tonnes in the year ended December 31, 2011, due to the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012.

Nickel supplies to the steel segment decreased by $87.0 million, or 76.2%, to $27.2 million in the year ended December 31, 2012 from $114.2 million in the year ended December 31, 2011, as a result of a decrease of

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$8.7 million in sales prices and a decrease of $78.3 million in sales volumes. The decrease of sales volumes is explained by the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012. Sales prices decreased due to a decrease in the price of nickel in the Russian market: our average sales prices for nickel to the third parties on FCA basis decreased by 25.2%.

Ferrosilicon sales to third parties decreased by $19.1 million, or 22.6%, to $65.6 million in the year ended December 31, 2012 from $84.7 million in the year ended December 31, 2011, as a result of a decrease of $7.6 million in sales volumes and a decrease of $11.6 million in sales prices. Sales prices decreased due to a decrease in the price of ferrosilicon for sale in Russia and for export, mainly Japan and South Korea, which was related to weakening demand as stocks rose. In addition, cheaper supplies of Chinese origin that were shipped through Vietnam put prices under pressure. Chinese export prices fell to $1,370 per tonne in December 2012 from $1,440 per tonne in January 2012, according to CRU. Decrease of sales volumes was due to the increase of stocks in transit to the customer as at December 31, 2012 following the increase of delivery period.

Ferrosilicon supplies to the steel segment decreased by $5.2 million, or 11.4%, to $40.3 million in the year ended December 31, 2012 from $45.5 million in the year ended December 31, 2011, as a result of a decrease of $3.6 million in sales prices and a decrease of $1.6 million in sales volumes. The decrease in sales volumes was due to the decrease in stainless steel production volumes in our steel segment companies by 27.0% in the year ended December 31, 2012.

Chrome sales to third parties increased by $25.5 million, or 24.1%, to $131.3 million in the year ended December 31, 2012 from $105.7 million in the year ended December 31, 2011, as a result of an increase of $39.2 million in sales volumes, which was partially offset by a decrease of $13.7 million in sales prices. Sales volumes increased because of the increase of export sales volumes following the strengthening of Asian markets.

Chrome supplies to the steel segment decreased by $18.1 million, or 50.5%, to $17.8 million in the year ended December 31, 2012 from $35.9 million in the year ended December 31, 2011, as a result of a decrease of $5.2 million in sales prices and a decrease of $13.0 million in sales volumes. The decrease in sales volumes was due to the decrease of stainless steel production volumes in our steel segment companies by 27.0% in the year ended December 31, 2012.

Excluding intersegment sales, export sales were 77.8% of ferroalloys segment sales in the year ended December 31, 2012, compared to 76.2% in the year ended December 31, 2011. The increase in the proportion of our export sales was mainly due to the strong demand for chrome on the Asian market.

***Power segment***

Our power segment revenues slightly decreased by $3.4 million, or 0.3%, to $1,241.1 million in the year ended December 31, 2012 from $1,244.5 million in the year ended December 31, 2011.

Electricity sales to third parties increased by $90.6 million, or 15.6%, to $671.3 million in the year ended December 31, 2012 from $580.7 million in the year ended December 31, 2011, as a result of an increase of $76.1 million in sales volumes and an increase of $14.4 million in sales prices. Sales prices increased as a result of further liberalization of government constrains on sales prices in the Russian electricity market. The increase of sales volumes was due to the increase of the number of customers following the expansion of Mechel Energo subsidiaries to various regions of Russia.

This increase was partially offset by the decrease of other revenue by $71.0 million, or 45.2%, to $85.9 million in the year ended December 31, 2012 from $156.9 million in the year ended December 31, 2011, due to the decrease of revenue from electricity networks usage following the disposal of Electroset in December 2011.

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Intersegment sales decreased by $22.9 million, or 4.5%, to $483.9 million in the year ended December 31, 2012 from $506.8 million in the year ended December 31, 2011, as a result of the decrease of electricity sales volumes to the ferroalloys segment following the decrease of its production volumes.

Southern Kuzbass Power Plant and Mechel Energo contributed $11.5 million to the power segment revenues through power generation capacity sales to third parties in the year ended December 31, 2012 compared to $14.2 million in the year ended December 31, 2011.

*Cost of goods sold and gross margin*

The consolidated cost of goods sold was 71.2% of consolidated revenues in the year ended December 31, 2012, as compared to 65.7% of consolidated revenues in the year ended December 31, 2011, resulting in a decrease in consolidated gross margin to 28.8% in the year ended December 31, 2012 from 34.3% for the year ended December 31, 2011. Cost of goods sold primarily consists of costs relating to raw materials (including products purchased for resale), direct payroll, depreciation and energy. The table below sets forth cost of goods sold and gross margin by segment for the years ended December 31, 2012 and 2011, including as a percentage of segment revenues.

| | Year Ended December 31, 2012 | | Year Ended December 31, 2011 | |
|---|---|---|---|---|
| **Cost of Goods Sold and Gross Margin by Segment** | **Amount** | **% of Segment Revenues** | **Amount** | **% of Segment Revenues** |
| | **(In thousands of U.S. dollars, except for percentages)** | | | |
| **Mining segment** | | | | |
| Cost of goods sold | 2,130,959 | 53.1% | 2,324,189 | 44.8% |
| Gross margin | 1,884,096 | 46.9% | 2,867,839 | 55.2% |
| **Steel segment** | | | | |
| Cost of goods sold | 6,026,304 | 85.2% | 6,341,260 | 84.9% |
| Gross margin | 1,045,017 | 14.8% | 1,123,573 | 15.1% |
| **Ferroalloys segment** | | | | |
| Cost of goods sold | 539,454 | 107.0% | 643,624 | 95.4% |
| Gross margin | (35,321) | (7.0)% | 30,821 | 4.6% |
| **Power segment** | | | | |
| Cost of goods sold | 931,760 | 75.1% | 932,060 | 74.9% |
| Gross margin | 309,351 | 24.9% | 312,422 | 25.1% |

***Mining segment***

Mining segment cost of goods sold decreased by $193.2 million, or 8.3%, to $2,131.0 million in the year ended December 31, 2012 from $2,324.2 million in the year ended December 31, 2011. The mining segment s gross margin percentage decreased to 46.9% in the year ended December 31, 2012 from 55.2% in the year ended December 31, 2011.

The decrease in the mining segment s gross margin percentage is explained by the decrease of coking coal, anthracite and PCI and iron ore FCA sales prices in the export and domestic markets by 36.4%, 20.0% and 30.6%, respectively.

Coal production cash costs per tonne (see Cash Costs per Tonne Measure ) at Southern Kuzbass Coal Company increased by $2.8 per tonne, or by 7.3%, from $38.0 in the year ended December 31, 2011 to $40.8 in the year ended December 31, 2012, mainly due to an:

increase in personnel expenses by $0.7 per tonne due to the indexation of salary rates of production personnel; and

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increase in raw materials expenses by $2.1 per tonne due to the increase in fuel, spare parts and explosive materials prices. Production cash costs of coal at Yakutugol decreased by 8.8% following the recovery from the collapse at Neryungrinskaya Washing Plant that occurred in 2011.

Coke production cash costs decreased by 21.5% at Moscow Coke and Gas Plant and by 28.1% at Mechel Coke following the decrease of coking coal concentrate purchase prices.

Average production cash costs for coal produced by the Bluestone companies decreased by 1.3%, mainly due to a 33.0% decrease in royalties expenses caused by the decrease of coal sales prices (royalties are calculated in the proportion to the coal sales revenues).

Production cash costs of iron ore increased by 9.8% due to the increase of costs of fuel and personnel expenses by 23.0% and 15.3%, respectively.

***Steel segment***

Steel segment cost of goods sold decreased by $315.0 million, or 5.0%, to $6,026.3 million in the year ended December 31, 2012 from $6,341.3 million in the year ended December 31, 2011. Steel segment cost of goods sold was 85.2% of the segment s revenues in the year ended December 31, 2012, as compared to 84.9% in the year ended December 31, 2011, resulting in a slight decrease of gross margin from 15.1% to 14.8%.

The stable gross profit margin was due to the decrease of sales prices by 5.8% on average accompanied by a similar decrease of average production costs per tonne due to the decrease of raw materials purchase prices (scrap metal, coke and ferroalloys).

***Ferroalloys segment***

Ferroalloys segment cost of goods sold decreased by $104.2 million, or 16.2%, to $539.5 million in the year ended December 31, 2012 from $643.6 million in the year ended December 31, 2011. Ferroalloys segment cost of goods sold was 107.0% of the segment s revenues in the year ended December 31, 2012, as compared to 95.4% in the year ended December 31, 2011, resulting in a decrease of gross margin from 4.6% to negative 7.0%. The decrease of cost of sales in absolute amounts is attributable to the decrease of nickel sales volumes to third parties and group companies by 32.5% following the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012. In addition, the decrease of sales volumes and the decrease of sales prices for all products led to the deterioration of the segment gross profit margin.

***Power segment***

Power segment cost of goods sold decreased by $0.3 million, or 0.0%, to $931.8 million in the year ended December 31, 2012 from $932.1 million in the year ended December 31, 2011. Power segment gross margin percentage slightly decreased to 24.9% in the year ended December 31, 2012 from 25.1% in the year ended December 31, 2011.

**Cash Costs per Tonne Measure**

In this document, we present cash costs per tonne for coal, coke and iron ore production for each significant production facility of our mining segment. Cash costs per tonne is a performance indicator that is not defined according to U.S. GAAP. Cash costs per tonne includes various production costs, such as raw materials, auxiliary materials, wages and social taxes of production personnel, electricity, gas and fuel costs, repairs and maintenance of production equipment, costs of mining works, mineral extraction tax and royalty payments, but excludes non-cash items such as depreciation, depletion and write-down of inventories to their net realizable value. We use this

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indicator to evaluate the performance of individual production subsidiaries and their ability to generate cash. Cash costs per tonne is a widely used performance indicator in the mining industry to evaluate the cost-effectiveness of mining operations. We believe that investors use this indicator in addition to the financial information prepared in accordance with U.S. GAAP to evaluate the performance of our companies. Consequently, this information must be considered supplementary and should not be regarded as a substitute for the performance indicators prepared in accordance with U.S. GAAP.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2012 is presented below:

| | | | | In Thousands of Tonnes | Cash Cost, U.S. Dollars per Tonne | In Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| Coal | Southern Kuzbass Coal Company | sales to third parties | | 7,245 | 41 | 295,537 |
| Coal | Southern Kuzbass Coal Company | intersegment sales | | 987 | 41 | 40,273 |
| Coal | Yakutugol | sales to third parties | | 8,435 | 32 | 268,097 |
| Coal | Yakutugol | intersegment sales | | 0 | 32 | 0 |
| Coal | Bluestone | sales to third parties | | 1,981 | 97 | 192,637 |
| Coal | Bluestone | intersegment sales | | 0 | 97 | 0 |
| Iron ore | Korshunov Mining Plant | sales to third parties | | 4,157 | 45 | 185,867 |
| Iron ore | Korshunov Mining Plant | intersegment sales | | 251 | 45 | 11,223 |
| Coke | Moscow Coke and Gas Plant | sales to third parties | | 778 | 245 | 190,561 |
| Coke | Moscow Coke and Gas Plant | intersegment sales | | 149 | 245 | 36,413 |
| Coke | Mechel Coke | sales to third parties | | 277 | 183 | 50,698 |
| Coke | Mechel Coke | intersegment sales | | 2,301 | 183 | 421,243 |
| Depreciation | | | | | | 201,729 |
| Depletion | | | | | | 92,767 |
| Write-down of inventory to their net realizable value | | | | | | 18,399 |
| Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales | | | | | | 53,409 |
| Costs of other products and services (coking products, washing services) and costs of other subsidiaries | | | | | | 72,108 |
| Total mining segment cost of sales | | | | | | 2,130,959 |

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The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2011 is presented below:

| | | | | In Thousands of Tonnes | Cash Cost, U.S. Dollars per Tonne | In Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| Coal | Southern Kuzbass Coal Company | sales to third parties | | 6,772 | 38 | 257,410 |
| Coal | Southern Kuzbass Coal Company | intersegment sales | | 1,189 | 38 | 45,183 |
| Coal | Yakutugol | sales to third parties | | 8,469 | 35 | 295,166 |
| Coal | Yakutugol | intersegment sales | | 0 | 35 | 0 |
| Coal | Bluestone | sales to third parties | | 3,206 | 99 | 315,840 |
| Coal | Bluestone | intersegment sales | | 0 | 99 | 0 |
| Iron ore | Korshunov Mining Plant | sales to third parties | | 2,711 | 41 | 110,451 |
| Iron ore | Korshunov Mining Plant | intersegment sales | | 1,669 | 41 | 68,004 |
| Coke | Moscow Coke and Gas Plant | sales to third parties | | 862 | 273 | 235,278 |
| Coke | Moscow Coke and Gas Plant | intersegment sales | | 87 | 273 | 23,795 |
| Coke | Mechel Coke | sales to third parties | | 154 | 212 | 32,516 |
| Coke | Mechel Coke | intersegment sales | | 2,275 | 212 | 481,893 |
| Depreciation | | | | | | 185,280 |
| Depletion | | | | | | 128,558 |
| Write-down of inventory to their net realizable value | | | | | | 16,605 |
| Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales | | | | | | 70,205 |
| Costs of other products and services (coking products, middlings, washing services) and costs of other subsidiaries | | | | | | 58,007 |
| Total mining segment cost of sales | | | | | | 2,324,189 |

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*Selling, distribution and operating expenses*

Selling, distribution and operating expenses increased by $1,684.4 million, or 68.4%, to $4,148,6 million in the year ended December 31, 2012 from $2,464.2 million in the year ended December 31, 2011, as a result of an increase of selling and distribution expenses in the mining segment, an increase of provisions for amounts due from related parties in the mining and steel segments and impairment of goodwill and long-lived assets in the steel and ferroalloys segments. As a percentage of consolidated revenues, selling, distribution and operating expenses increased to 36.8% in the year ended December 31, 2012 from 19.6% in the year ended December 31, 2011, mainly due to an increase of provisions for amounts due from related parties and impairment of goodwill and long-lived assets that was not recognized in 2011. Our selling, distribution and operating expenses consist primarily of selling and distribution expenses, taxes other than income tax, loss on the write off of property, plant and equipment, provision for doubtful accounts, amounts due from related parties, impairment of goodwill and long-lived assets and general, administrative and other operating expenses. The table below sets forth these costs by segment for the years ended December 31, 2012 and 2011, including as a percentage of segment revenues.

| | Year Ended December 31, 2012 | | Year Ended December 31, 2011 | |
|---|---|---|---|---|
| **Selling, Distribution and Operating Expenses by Segment** | **Amount** | **% of Segment Revenues** | **Amount** | **% of Segment Revenues** |
| | **(In thousands of U.S. dollars, except for percentages)** | | | |
| **Mining segment** | | | | |
| Selling and distribution expenses | 871,141 | 21.7% | 843,097 | 16.2% |
| Taxes other than income tax | 71,978 | 1.8% | 42,628 | 0.8% |
| Allowance (recovery of allowance) for doubtful accounts | 4,574 | 0.1% | (3,967) | (0.1)% |
| Accretion expense | 3,075 | 0.1% | 4,340 | 0.1% |
| Provision for amounts due from related parties | 22,668 | 0.6% | | 0.0% |
| Loss on write off of property, plant and equipment | 7,294 | 0.2% | 8,225 | 0.2% |
| General, administrative and other operating expenses | 259,087 | 6.5% | 282,132 | 5.4% |
| Total | 1,239,818 | 30.9% | 1,176,455 | 22.7% |
| **Steel segment** | | | | |
| Selling and distribution expenses | 613,457 | 8.7% | 614,094 | 8.2% |
| Taxes other than income tax | 44,579 | 0.6% | 46,568 | 0.6% |
| Loss on write off of property, plant and equipment | 3,463 | 0.0% | 1,965 | 0.0% |
| Impairment of goodwill and long-lived assets | 583,985 | 8.3% | | 0.0% |
| Provision for amounts due from related parties | 896,445 | 12.7% | | 0.0% |
| Accretion expense | 1,172 | 0.0% | 1,402 | 0.0% |
| Allowance for doubtful accounts | 7,850 | 0.1% | 3,275 | 0.0% |
| General, administrative and other operating expenses | 258,623 | 3.7% | 264,521 | 3.5% |
| Total | 2,409,574 | 34.1% | 931,825 | 12.5% |
| **Ferroalloys segment** | | | | |
| Selling and distribution expenses | 26,106 | 5.2% | 22,135 | 3.3% |
| Taxes other than income tax | 8,374 | 1.7% | 11,699 | 1.7% |
| Loss on write off of property, plant and equipment | 598 | 0.1% | 816 | 0.1% |
| Impairment of goodwill and long-lived assets | 123,906 | 24.6% | | 0.0% |
| Allowance (recovery of allowance) for doubtful accounts | 9,216 | 1.8% | (722) | (0.1)% |
| Accretion expense | 705 | 0.1% | 822 | 0.1% |
| General, administrative and other operating expenses | 55,670 | 11.0% | 40,983 | 6.1% |
| Total | 224,575 | 44.5% | 75,733 | 11.2% |
| **Power segment** | | | | |
| Selling and distribution expenses | 251,256 | 20.2% | 256,940 | 20.6% |
| Taxes other than income tax | 2,215 | 0.2% | 1,893 | 0.2% |

| | | | | |
|---|---|---|---|---|
| Loss on write off of property, plant and equipment | 74 | 0.0% | | 0.0% |
| Allowance for doubtful accounts | 6,706 | 0.5% | 84 | 0.0% |
| Accretion expense | 68 | 0.0% | 95 | 0.0% |
| General, administrative and other operating expenses | 14,312 | 1.2% | 21,211 | 1.7% |
| Total | 274,631 | 22.1% | 280,223 | 22.5% |

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***Mining segment***

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities, and increased by $28.0 million, or 3.3%, to $871.1 million in the year ended December 31, 2012 from $843.1 million in the year ended December 31, 2011, mainly due to the increase of iron ore and anthracite and PCI sales volumes by 40.2%. As a percentage of mining segment revenues, selling and distribution expenses increased from 16.2% to 21.7% due to a decrease of 21.0% in sales revenue from sales to third parties and simultaneous increase of 3.3% in selling and distribution expenses.

Taxes other than income tax include property and land taxes, as well as other taxes. Taxes other than income tax increased by $29.3 million, or 68.9%, to $72.0 million in the year ended December 31, 2012 from $42.6 million in the year ended December 31, 2011. The increase was due to the accrual of additional mineral extraction tax to Southern Kuzbass Coal Company, Yakutugol and Tomusinsky Open Pit for the years 2008-2011 of $27.1 million following the results of tax audits of these companies.

Allowance for doubtful accounts changed by $8.5 million to $4.6 million expenses in the year ended December 31, 2012 from $4.0 million income in the year ended December 31, 2011, due to the change in exposure to losses on its accounts receivable. In accordance with our accounting policy, we apply specific rates to overdue accounts receivable depending on the history of cash collections and future expectations of conditions that might impact the collectibility.

Loss on write off of property, plant and equipment decreased by $0.9 million, or 11.3%, to $7.3 million in the year ended December 31, 2012 from $8.2 million in the year ended December 31, 2011, due to the decrease of obsolete property, plant and equipment objects that are not planned for further use in production process at Yakutugol and Moscow Coke and Gas Plant.

In 2012, based on our future expectations we made a provision of $22.7 million for the advances issued to the related metallurgical plants. See note 9 to the consolidated financial statements. No such provisions were recognized in the year 2011.

General, administrative and other expenses consist of payroll and payroll taxes, depreciation, rent and maintenance, legal and consulting expenses, office overheads and other expenses. These expenses decreased by $23.0 million, or 8.2%, to $259.1 million in the year ended December 31, 2012 from $282.1 million in the year ended December 31, 2011, mainly as a result of the decrease of contributions to the non-state pension fund. Salaries and related social taxes decreased by $4.1 million, or 2.6%, to $151.5 million in the year ended December 31, 2012 from $155.5 million in the year ended December 31, 2011, mainly as a result of the decrease of the number of administrative personnel in the segment companies. Legal and consulting fees and insurance services decreased by $4.9 million, or 27.5%, to $13.0 million in the year ended December 31, 2012 from $18.0 million in the year ended December 31, 2011, due to the decreased use of consulting services in 2012. Rent and maintenance, business travel expenses, bank charges and office expenses decreased by $3.6 million, or 10.2%, to $32.0 million in the year ended December 31, 2012 from $35.6 million in the year ended December 31, 2011, mainly as a result of the cost cutting procedures implemented by our management. Social expenses decreased by $17.3 million, or 85.3%, to $3.0 million in the year ended December 31, 2012 from $20.3 million in the year ended December 31, 2011, mainly as a result of the absence of contributions made by our mining subsidiaries to the non-state pension fund in 2011. Other administrative and operating expenses increased by $6.9 million, mainly due to the following:

- in 2011, we recognized the costs of removal of the negative environmental impact of Bluestone mining operations of $8.4 million. No such expenses were recognized in 2012; and
- in 2012, we made an accrual for Suncoke claim against Bluestone as a result of Bluestone s failure to perform obligations under contracts to supply coal to Suncoke in 2008 of $16.6 million.

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***Steel segment***

Selling and distribution expenses for our steel segment consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by $0.6 million, or 0.1%, to $613.5 million in the year ended December 31, 2012 from $614.1 million in the year ended December 31, 2011, mainly due to a decrease in export sales volumes by 8.4% which was partially offset by an increase of railway tariffs in Russia by 6.6%. As a percentage of steel segment revenues, selling and distribution expenses increased to 8.7% in the year ended December 31, 2012 from 8.2% in the year ended December 31, 2011. This percentage increased because sales prices for all our steel products decreased by 5.8% (on average), while railway tariffs, which represent the main distribution expense, increased by 6.6% on average.

Taxes other than income tax include property and land taxes and other taxes. These taxes decreased by $2.0 million, or 4.2%, to $44.6 million in the year ended December 31, 2012 from $46.5 million in the year ended December 31, 2011. As a percentage of segment revenues, these taxes remained stable at 0.6%. Property and land taxes decreased by $1.4 million, or 3.6%, to $36.7 million in the year ended December 31, 2012 from $38.1 million in the year ended December 31, 2011, mainly due to ruble depreciation of 5.8%.

Allowance for doubtful accounts changed by $4.6 million, or 139.7%, to $7.8 million expenses in the year ended December 31, 2012 from $3.3 million expenses in the year ended December 31, 2011, due to the increase of allowance rates in the year ended December 31, 2012 following the deterioration in the collectibility of accounts receivable.

In 2012, based on our future expectations in relation to the recoverability of trade and other balances from the related metallurgical plants and fair value of the assets pledged as security under the Estar Loan Agreement we made a provision of $896.4 million for these balances. See note 9 to the consolidated financial statements. No such expenses were recognized in the year 2011.

Loss on write off of property, plant and equipment increased by $1.5 million, or 76.3%, to $3.5 million in the year ended December 31, 2012 from $2.0 million in the year ended December 31, 2011, due to an increase in the amount of unused property, plant and equipment written off by our steel production subsidiaries.

As a result of the decrease in commodity prices, the weakness of the European market and the lack of positive prospects for the recovery of the European market, we recognized impairment of goodwill and long-lived assets in relation to our Romanian subsidiaries, Mechel Nemunas, Cognor Stahlhandel and Donetsk Electrometallurgical Plant of $584.0 million. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We may incur impairments to goodwill or other long-lived assets which could negatively affect our future profits and note 23 to the consolidated financial statements. No such expenses were recognized in 2011.

General, administrative and other expenses decreased by $5.9 million, or 2.2%, to $258.6 million in the year ended December 31, 2012 from $264.5 million in the year ended December 31, 2011, and increased as a percentage of segment revenues to 3.7% in the year ended December 31, 2012 from 3.5% in the year ended December 31, 2011. Payroll and related social taxes increased by $3.6 million, or 2.6%, to $143.2 million in the year ended December 31, 2012 from $139.6 million in the year ended December 31, 2011, due to the redundancy payments to the employees of our Romanian subsidiaries made in accordance with the statutory requirements. Social expenses (including pension expenses) decreased by $5.8 million, or 24.7%, to $17.7 million in the year ended December 31, 2012 from $23.5 million in the year ended December 31, 2011, mainly due to cuts in our social programs in 2012. Rent and maintenance, business travel expenses, bank charges and office expenses decreased by $8.3 million, or 15.7%, to $44.5 million in the year ended December 31, 2012 from $52.8 million in the year ended December 31, 2011, mainly due to the cost cutting measures implemented by our management. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services decreased by $2.8 million, or 16.4%, to $14.3 million in the year ended December 31, 2012 from $17.1 million in the year ended December 31, 2011, due to the decreased use of consulting services in 2012. Other administrative and operating expenses increased by $7.4 million, or 23.4%, to $39.0 million in the year ended December 31, 2012 from $31.6 million in the year ended December 31, 2011, mainly due to the acquisition of Donetsk Electrometallurgical Plant in December 2011 and Cognor Stahlhandel in September 2012.

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***Ferroalloys segment***

Selling and distribution expenses, consisting predominately of transportation expenses related to our selling activities, increased by $4.0 million, or 17.9%, to $26.1 million in the year ended December 31, 2012 from $22.1 million in the year ended December 31, 2011. As a percentage of the ferroalloys segment revenues, selling and distribution expenses increased to 5.2% in the year ended December 31, 2012 from 3.3% in the year ended December 31, 2011, mainly due to an increase in the share of chrome export sales in the ferroalloys segment sales revenue to third parties to 38.2% from 26.7%.

Taxes other than income tax decreased by $3.3 million, or 28.4%, to $8.4 million in the year ended December 31, 2012 from $11.7 million in the year ended December 31, 2011, due to the fact that the withholding tax asset of $2.7 million related to Oriel Resources was written-off in 2011. As a percentage of segment revenues, these taxes remained stable at the level of 1.7%. Property and land taxes decreased by $2.1 million, or 48.1%, to $2.2 million in the year ended December 31, 2012 from $4.3 million in the year ended December 31, 2011, due to the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012.

Allowance for doubtful accounts changed by $9.9 million, or 1,375.9%, to $9.2 million expenses in the year ended December 31, 2012 from $0.7 million income in the year ended December 31, 2011, due to an increase of outstanding accounts receivable provided as of December 31, 2012, as well as the increase of allowance rates in the year ended December 31, 2012 following the deterioration of the collectibility of accounts receivable.

Loss on write off of property, plant and equipment decreased by $0.2 million, or 26.8%, to $0.6 million in the year ended December 31, 2012 from $0.8 million in the year ended December 31, 2011, due to a decrease in the amount of property, plant and equipment written off by our production subsidiaries.

As a result of the continued downturn in the nickel price and margin deterioration, we recognized impairment of goodwill and long-lived assets in relation to Southern Urals Nickel Plant and Kazakhstansky Nickel Mining Company of $123.9 million. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We may incur impairments to goodwill or other long-lived assets which could negatively affect our future profits and note 23 to the consolidated financial statements. No such expenses were recognized in 2011.

General, administrative and other expenses increased by $14.7 million, or 35.8%, to $55.7 million in the year ended December 31, 2012 from $41.0 million in the year ended December 31, 2011. Payroll and related social taxes increased by $15.8 million, or 75.7%, to $36.6 million in the year ended December 31, 2012 from $20.8 million in the year ended December 31, 2011, due to the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012 which required the recognition in operating expenses of all expenses related to the payments to production employees during idle hours. Social expenses (including pension expenses) decreased by $1.5 million, or 34.2%, to $3.0 million in the year ended December 31, 2012 from $4.5 million in the year ended December 31, 2011, mainly due to the reduction in a number of social projects in which our production subsidiaries participate. Rent and maintenance, business travel expenses, bank charges and office expenses decreased by $0.8 million, or 15.6%, to $4.1 million in the year ended December 31, 2012 from $4.9 million in the year ended December 31, 2011, mainly due to the effect of overall cost-cutting measures implemented by our management. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services, increased by $0.1 million, or 7.7%, to $2.0 million in the year ended December 31, 2012 from $1.8 million in the year ended December 31, 2011. Other administrative and operating expenses increased by $1.1 million, or 12.2%, to $10.0 million in the year ended December 31, 2012 from $9.0 million in the year ended December 31, 2011, mainly due to the suspension of operations at Southern Urals Nickel Plant in the third quarter of 2012 which required the recognition in operating expenses of all such expenses.

***Power segment***

In 2012, selling and distribution expenses consisted almost entirely of electricity transmission costs incurred by our Kuzbass Power Sales Company for the usage of the power grid through which electricity is distributed to

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end consumers. These costs are incurred by all power distribution companies pursuant to agreements between the distribution company and the grid operator. These expenses decreased by $5.7 million, or 2.2%, to $251.3 million in the year ended December 31, 2012 from $256.9 million in the year ended December 31, 2011, due to the ruble depreciation.

Taxes other than income tax increased by $0.3 million, or 17.0%, to $2.2 million in the year ended December 31, 2012 from $1.9 million in the year ended December 31, 2011, mainly due to the increase of ecological payments by Southern Kuzbass Power Plant.

Allowance for doubtful accounts changed by $6.6 million to $6.7 million expenses in the year ended December 31, 2012 from $0.1 million expenses in the year ended December 31, 2011, mainly due to the increase of allowance rates in the year ended December 31, 2012 following the deterioration in the collectibility of accounts receivable.

General, administrative and other expenses decreased by $6.9 million, or 32.6%, to $14.3 million in the year ended December 31, 2012 from $21.2 million in the year ended December 31, 2011, due to the cancellation of the payments for environmental breaches of $3.3 million accrued to Southern Kuzbass Power Plant in 2011 and successfully challenged in court in 2012.

*Operating income*

Operating income changed by $2,738.0 million, or 148.8%, to $897.9 million loss in the year ended December 31, 2012 from $1,840.1 million income in the year ended December 31, 2011. Operating income as a percentage of consolidated revenues decreased to negative 8.0% in the year ended December 31, 2012 from 14.7% in the year ended December 31, 2011, mainly due to the decrease of the gross margin in the mining, steel and ferroalloys segments and recognition of losses related to impairment of goodwill and long-lived assets in the steel and ferroalloys segments, and losses from provision for amounts due from related parties in the steel and mining segments as explained above.

The table below sets out operating income by segment, including as a percentage of segment revenues.

| | Year Ended December 31, 2012 | | Year Ended December 31, 2011 | |
|---|---|---|---|---|
| **Operating Income by Segment** | **Amount** | **% of Segment Revenues** | **Amount** | **% of Segment Revenues** |
| | **(In thousands of U.S. dollars, except for percentages)** | | | |
| Mining segment | 644,278 | 16.0% | 1,691,385 | 32.6% |
| Steel segment | (1,364,557) | 19.3% | 191,749 | 2.6% |
| Ferroalloys segment | (259,896) | (51.6)% | (44,912) | (6.7)% |
| Power segment | 34,720 | 2.8% | 32,199 | 2.6% |
| Elimination of intersegment unrealized (profit) loss[(1)] | 47,580 | | (30,317) | |
| Consolidated operating income | (897,875) | | 1,840,104 | |

(1) Our management evaluates the performance of our segments before the elimination of unrealized profit in inventory balances of segments that was generated by the segments but not recognized as profit in our consolidated financial statements until the sale of such inventories to third parties. Therefore, we present our segments before such elimination, and such elimination is presented separately. The change in intersegment unrealized profit adjustment in the year ended December 31, 2012 as compared to the year ended December 31, 2011 was due to the decrease in gross margin of our mining segment in 2012, that resulted from a decrease in the sales prices.

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***Mining segment***

Mining segment operating income decreased by $1,047.1 million, or 61.9%, to $644.3 million in the year ended December 31, 2012 from $1,691.4 million in the year ended December 31, 2011. The operating margin percentage decreased to 16.0% in the year ended December 31, 2012 from 32.6% in the year ended December 31, 2011, mainly due to the decrease of coking coal, anthracite and PCI, coke and iron ore sales prices, the increase of selling and distribution expenses and the recognition of provision for the amounts due from related parties.

***Steel segment***

Steel segment operating income decreased by $1,556.3 million, or 811.6%, to a $1,364.6 million loss in the year ended December 31, 2012 from a $191.7 million income in the year ended December 31, 2011. The operating margin percentage decreased to negative 19.3% in the year ended December 31, 2012 from 2.6% in the year ended December 31, 2011, mainly due to the decrease of gross profit margin following the decrease of sales prices for all main products, the suspension of operations of the Romanian companies and Donetsk Electrometallurgical Plant in the fourth quarter of 2012 and recognition of losses from impairment of goodwill and long-lived assets of these subsidiaries and Cognor Stahlhandel, as well as provision for amounts due from the related metallurgical plants.

***Ferroalloys segment***

Ferroalloys segment operating loss increased by $215.0 million, or 478.7%, to a $259.9 million loss in the year ended December 31, 2012 from a $44.9 million loss in the year ended December 31, 2011. The operating margin percentage decreased to negative 51.6% in the year ended December 31, 2012 from negative 6.7% in the year ended December 31, 2011, mainly due to the decrease of gross profit margin following the decrease in sales prices for all segment products and the recognition of loss from impairment of goodwill and long-lived assets at Southern Urals Nickel Plant and Kazakhstansky Nickel Mining Company.

***Power segment***

Power segment operating income increased by $2.5 million, or 7.8%, to $34.7 million in the year ended December 31, 2012 from $32.2 million in the year ended December 31, 2011. The operating margin percentage slightly increased to 2.8% in the year ended December 31, 2012 from 2.6% in the year ended December 31, 2011.

*Other income and expense, net*

Other income and expense, net consists of income (loss) of equity investees, interest income, interest expense, other income and foreign exchange gain. The table below sets forth these costs for the years ended December 31, 2012 and 2011, including as a percentage of revenues.

| | Year Ended December 31, 2012 | | Year Ended December 31, 2011 | |
|---|---|---|---|---|
| **Other Income and Expense, Net** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** |
| | **(In thousands of U.S. dollars, except for percentages)** | | | |
| Income from equity investees | 475 | 0.0% | 304 | 0.0% |
| Interest income | 70,509 | 0.6% | 16,785 | 0.1% |
| Interest expense | (669,353) | (5.9)% | (560,548) | (4.5)% |
| Other income (loss), net | 30,232 | 0.3% | (7,002) | (0.1)% |
| Foreign exchange gain (loss) | 88,711 | 0.8% | (117,076) | (0.9)% |
| Total | (479,426) | (4.3)% | (667,537) | (5.3)% |

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Income from equity investees consists of our share of income from our equity investments, such as various investments of Southern Kuzbass Coal Company and Cognor Stahlhandel.

Interest income increased by $53.7 million, or 320.0%, to $70.5 million in the year ended December 31, 2012 from $16.8 million in the year ended December 31, 2011, due to the accrual of interest on the related metallurgical plants loan balance. This loan was provided in the fourth quarter of 2011.

Interest expense increased by $108.8 million, or 19.4%, to $669.4 million in the year ended December 31, 2012 from $560.5 million in the year ended December 31, 2011, due to the increase of our indebtedness level, as well as the increase of weighted average interest rate from 8.1% in the year ended December 31, 2011 to 8.2% in the year ended December 31, 2012.

Other income increased by $37.2 million, or 531.8%, to a $30.2 million income in the year ended December 31, 2012 from a $7.0 million loss in the year ended December 31, 2011, due to the receipt in 2012 of dividends on investments accounted at cost of $26.0 million.

Foreign exchange gain (loss) changed by $205.8 million, or 175.8%, to a $88.7 million gain in the year ended December 31, 2012 from a $117.1 million loss in the year ended December 31, 2011. This foreign exchange gain was primarily attributable to gains from the revaluation of the U.S. dollar denominated syndicated loan arrangement for refinancing of the acquisition of Yakutugol and Oriel Resources, as well as our obligation to pay for the shares of Donetsk Electrometallurgical Plant on an installment basis through December 2018.

*Income tax expense*

Income tax expense decreased by $181.6 million, or 50.3%, to $179.2 million in the year ended December 31, 2012 from $360.7 million in the year ended December 31, 2011, due to an overall decrease of operating income. Our effective tax rate decreased to negative 13.6% from 30.8%, mainly due to the recognition of losses from impairment of goodwill and provision for the loan provided to the related metallurgical plants that do not decrease the taxable income of our subsidiaries.

*Net loss from discontinued operations*

Net loss from discontinued operations increased by $100.1 million, or 1,195.4%, to $108.4 million in the year ended December 31, 2012 from $8.4 million in the year ended December 31, 2011, due to the recognition of impairment of goodwill and long-lived assets of Toplofikatsia Rousse of $97.9 million following the signing of the agreement for disposal of the subsidiary in December 2012. See Item 3. Key Information Recent Developments Disposal of Toplofikatsia Rousse.

*Net (loss) income attributable to non-controlling interests, net of income tax*

Net (loss) income attributable to non-controlling interests decreased by $75.9 million, or 100.4%, to a $0.3 million gain in the year ended December 31, 2012 from $75.6 million expenses in the year ended December 31, 2011. The minority interest in the income of our subsidiaries in the year 2012 was $10.0 million for Korshunov Mining Plant and $35.0 million for Southern Kuzbass Coal Company and its subsidiaries that was offset by the minority interest in the loss of Southern Urals Nickel Plant of $23.8 million and the loss of Romanian companies of $21.6 million.

*Net (loss) income attributable to shareholders of Mechel*

Due to the decrease of operating income in our mining, steel and ferroalloys segments as a result of recognition of losses from impairment of goodwill and long-lived assets as well as provision for amounts due from the related metallurgical plants and increase of losses from discontinued operations, net (loss) income attributable to our shareholders changed by $2,392.5 million, or 328.7%, to a $1,664.6 million loss in the year ended December 31, 2012 from a $727.9 million income in the year ended December 31, 2011.

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*Net (loss) income attributable to common shareholders of Mechel*

Net (loss) income attributable to our common shareholders changed by $2,393.2 million, or 368.4%, to a $1,743.6 million loss in the year ended December 31, 2012 from a $649.6 million income in the year ended December 31, 2011. This is comparable with the change of net (loss) income attributable to shareholders of Mechel because there were no significant changes in the amounts of dividends on preferred shares.

***Year ended December 31, 2011 compared to year ended December 31, 2010***

*Net revenues*

Consolidated revenues increased by $2,794.5 million, or 28.7%, to $12,541.1 million in the year ended December 31, 2011 from $9,746.6 million in the year ended December 31, 2010.

Across our segments, our acquisitions in the year ended December 31, 2011 did not have significant impact on our consolidated revenues. The sales increase was due to both increase in sales volumes and sales prices across all our major products.

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The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

| Net Revenues by Segment | Year Ended December 31, 2011 |
|---|---|