Mechel OAO
Form 20-F
April 26, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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

OR

o **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)

Alexander Tolkach, tel.: +7-495-221-8888, e-mail: alexander.tolkach@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
AMERICAN DEPOSITARY SHARES, EACH ADS REPRESENTING ONE COMMON SHARE	NEW YORK STOCK EXCHANGE
COMMON SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE[(1)]

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 (including 115,568,183 shares in the form of ADSs)

138,756,915 preferred shares (including 55,502,766 shares held by a wholly-owned subsidiary of Mechel)

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

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 o No þ

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 þ No o

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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

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 o Item 18 o

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 o No þ

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

TABLE OF CONTENTS

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

Our business consists of 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.

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

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

Table of Contents

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

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

The following table sets forth by segment the official names and location of 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
Tomusinsk Open Pit Mine	Tomusinsk Open Pit Mine OAO	Russia, Kemerovo region
Korshunov Mining Plant	Korshunov Mining Plant OAO	Russia, Irkutsk region
Port Posiet	Port Posiet OAO	Russia, Primorsk territory
Yakutugol	Yakutugol OAO	Russia, Sakha Republic
Elgaugol	Elgaugol OAO	Russia, Sakha Republic
Port Temryuk	Port Mechel Temryuk OOO	Russia, Krasnodar territory
Port Vanino	Port Mechel Vanino OOO	Russia, Khabarovsk territory
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, Novosibirsk region
Mechel Mining Management	Mechel Mining Management Company OOO	Russia, Kemerovo region
Mechel Engineering	Mechel Engineering OOO	Russia, Moscow
Steel Segment		
Chelyabinsk Metallurgical Plant	Chelyabinsk Metallurgical Plant OAO	Russia, Chelyabinsk region
Vyartsilya Metal Products Plant	Vyartsilya Metal Products Plant ZAO	Russia, Karelian Republic
Beloretsk Metallurgical Plant	Beloretsk Metallurgical Plant OAO	Russia, Bashkortostan Republic
Mechel Targoviste	Mechel Targoviste S.A.	Romania
Urals Stampings Plant	Urals Stampings Plant OAO	Russia, Chelyabinsk region
Mechel Campia Turzii	Mechel Campia Turzii S.A.	Romania
Mechel Nemunas	Mechel Nemunas Co. Ltd.	Lithuania
Izhstal	Izhstal OAO	Russia, Udmurt Republic
Port Kambarka	Port Kambarka OAO	Russia, Udmurt Republic
Moscow Coke and Gas Plant	Moscow Coke and Gas Plant OAO	Russia, Moscow region
Mechel-Coke	Mechel-Coke OOO	Russia, Chelyabinsk region
Ductil Steel	Ductil Steel S.A.	Romania
Mechel-Steel Management	Mechel-Steel Management OOO	Russia, Moscow
Laminorul Plant	Laminorul S.A.	Romania

Table of Contents

Name as Used in This Document	Official Name	Location
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 ZAO	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
Marketing and Distribution		
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
Other		
Mecheltrans	Mecheltrans OOO	Russia, Moscow
Mechel Finance	Mechel Finance OOO	Russia, Moscow

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- liquidity, capital resources and capital expenditures;
- growth in demand for our products;
- economic outlook and industry trends;
- developments in our markets;
- 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.

Table of Contents

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, 2009, 2008, 2007, 2006 and 2005, 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**[1]).

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 our 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,				
	2009	**2008**	**2007**	**2006**	**2005**
	(In thousands of U.S. dollars, except per share data)				
Consolidated statements of income and comprehensive income data:					
Revenue, net	5,754,146	9,950,705	6,683,842	4,397,811	3,804,995
Cost of goods sold	(3,960,693)	(5,260,108)	(4,166,864)	(2,860,224)	(2,469,134)
Gross profit	1,793,453	4,690,597	2,516,978	1,537,587	1,335,861
Selling, distribution and operating expenses	(1,547,809)	(2,134,328)	(1,119,385)	(811,889)	(820,133)
Operating income	245,644	2,556,269	1,397,593	725,698	515,728
Other (expense) income, net[2]	(150,420)	(1,208,001)	(12,146)	139,135	10,131
Income from continuing operations, before income tax	95,224	1,348,268	1,385,447	864,833	525,859
Income tax expense	(18,893)	(118,887)	(356,320)	(230,599)	(136,643)
Income from continuing operations, net of tax	76,331	1,229,381	1,029,127	634,234	389,216
Discontinued operations, net of tax			158	543	(1,157)
Net income	76,331	1,229,381	1,029,285	634,777	388,059
	(2,590)	(88,837)	(116,234)	(31,528)	(6,879)

Less net income attributable to non-controlling interests					
Net income attributable to shareholders of Mechel OAO	73,741	1,140,544	913,051	603,249	381,180
Dividends on preferred shares	(134,498)				
Net (loss) income attributable to common shareholders of Mechel OAO	(60,757)	1,140,544	913,051	603,249	381,180
Net income	76,331	1,229,381	1,029,285	634,777	388,059
Currency translation adjustment	(325,353)	(289,633)	157,288	155,451	(65,513)
Change in pension benefit obligation	(10,155)	87,659	(14,365)		
Adjustment of available-for-sale securities	(5,178)	(6,571)	(5,059)	11,203	2,181
Additional minimum pension liability				(4,669)	
Comprehensive (loss) income	(264,355)	1,020,836	1,167,149	796,762	324,727
Comprehensive income (loss) attributable to non-controlling interests	6,759	(26,822)	(136,849)	(38,059)	4,812

Table of Contents

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands of U.S. dollars, except per share data)				
Comprehensive (loss) income attributable to shareholders of Mechel OAO	(257,596)	994,014	1,030,300	758,703	329,539
(Loss) earnings per share from continuing operations	(0.15)	2.74	2.19	1.48	0.95
Income per share effect of discontinued operations	0.00	0.00	0.00	0.00	0.00
Net (loss) income per share	(0.15)	2.74	2.19	1.48	0.95
Cash dividends per common share	0.18	1.12	0.76	0.46	0.48
Cash dividends per preferred share	1.62	0.00	0.00	0.00	0.00
Weighted average number shares outstanding	416,270,745	416,270,745	416,270,745	408,979,356	403,118,680
Mining segment statements of income and comprehensive income data[(3)]:					
Revenue, net	1,826,180	4,031,967	1,970,969	1,354,285	1,270,931
Cost of goods sold	(989,446)	(1,229,631)	(1,008,485)	(830,632)	(565,126)
Gross profit	836,734	2,802,336	962,484	523,653	705,805
Selling, distribution and operating expenses	(610,417)	(1,001,796)	(391,015)	(332,611)	(295,512)
Operating income	226,317	1,800,540	571,469	191,042	410,293
Steel segment statements of income and comprehensive income data[(3)]:					
Revenue, net	3,504,050	5,773,719	4,414,492	3,083,654	2,767,028
Cost of goods sold	(2,876,211)	(4,219,344)	(3,374,420)	(2,240,001)	(2,158,499)
Gross profit	627,839	1,554,375	1,040,072	843,653	608,529
Selling, distribution and operating expenses	(681,859)	(783,936)	(502,811)	(457,100)	(502,248)
Operating (loss) income	(54,020)	770,439	537,261	386,553	106,281

Ferroalloys segment statements of income and comprehensive income data[(3)]:					
Revenue, net	430,809	584,631	636,656	339,748	156,241
Cost of goods sold	(392,428)	(571,162)	(253,725)	(174,675)	(150,749)
Gross profit (loss)	38,381	13,469	382,931	165,073	5,492
Selling, distribution and operating expenses	(65,967)	(63,986)	(32,824)	(17,777)	(20,201)
Operating (loss) income	(27,586)	(50,517)	350,107	147,296	(14,709)
Power segment statements of income and comprehensive income data[(3)]:					
Revenue, net	872,784	1,028,110	598,515	123,322	24,532
Cost of goods sold	(642,516)	(714,094)	(393,153)	(110,273)	(20,242)
Gross profit	230,268	314,016	205,362	13,049	4,290
Selling, distribution and operating expenses	(189,566)	(284,610)	(192,735)	(4,400)	(2,172)
Operating income	40,702	29,406	12,627	8,649	2,118
Consolidated balance sheet data (at period end):					
Total assets	13,183,311	12,009,634	9,227,643	4,457,404	3,600,083
Equity attributable to shareholders of Mechel OAO	4,049,721	4,030,812	3,504,933	2,864,963	2,210,474
Equity attributable to non-controlling interests	280,968	290,849	300,523	163,036	127,834
Long-term debt, net of current portion	4,074,458	219,816	2,321,922	322,604	45,615

Table of Contents

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands of U.S. dollars, except per share data)				
Consolidated cash flows data:					
Net cash provided by operating activities	561,669	2,229,941	904,969	554,923	620,875
Net cash used in investing activities	(709,931)	(3,249,737)	(3,408,088)	(548,522)	(920,771)
Net cash provided by (used in) financing activities	375,434	1,247,623	2,547,503	(166,798)	(382,806)
Non-U.S. GAAP measures[4]:					
Consolidated EBITDA[2]	998,295	2,046,811	1,658,662	1,068,258	726,252
Consolidated Adjusted EBITDA[2]	1,172,631	2,924,239	1,603,962	1,009,485	763,687
Mining Segment EBITDA[2]	1,107,660	1,897,012	713,624	277,647	455,528
Mining Segment Adjusted EBITDA[2]	1,039,091	2,039,294	706,178	261,824	469,693
Steel Segment EBITDA	54,215	629,572	709,462	643,499	252,364
Steel Segment Adjusted EBITDA	134,458	966,115	654,762	584,726	289,799
Ferroalloys Segment EBITDA	(135,370)	(420,074)	323,760	146,141	3,637
Ferroalloys Segment Adjusted EBITDA	27,365	(21,306)	321,930	147,798	3,637
Power Segment EBITDA	51,249	51,769	26,212	9,190	3,211
Power Segment Adjusted EBITDA	51,176	51,604	26,440	9,457	2,948

(1) The value of property, plant and equipment pertaining to noncontrolling shareholders in the accounting for non-controlling interests resulting from acquisitions of various subsidiaries before January 1, 2009 was recorded at appraised values rather than at historical cost as required by the then effective U.S. GAAP.

(2) Includes a gain on revaluation of the CVR contingent liability in 2009 of $494.2 million related to the preferred shares used as consideration in the Bluestone acquisition. This gain is a non-cash item. Future fluctuations in the fair value of the preferred shares, the success of the drilling program at Bluestone, dividend payments on the preferred shares, passage of time and other factors, some of which are beyond our control, could impact the fair value of the CVR contingent payment and result in further revaluation gains and losses. See note 4 to our consolidated financial statements.

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

(4) EBITDA represents net income before interest expense, income taxes and depreciation, depletion and amortization. Adjusted EBITDA represents EBITDA before foreign exchange gains and losses. While foreign exchange gains and losses are a recurring item, they are not indicative of our ongoing operating performance. We present EBITDA and Adjusted EBITDA because we consider them to be important supplemental measures of our operating performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also present EBITDA and Adjusted EBITDA by segment because our overall performance is best explained with reference to results of each segment.

Table of Contents

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

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands of U.S. dollars)				
Consolidated EBITDA and Adjusted EBITDA reconciliation:					
Net income attributable to shareholders of Mechel OAO	73,741	1,140,544	913,051	603,249	381,180
Add:					
Depreciation, depletion and amortization	406,675	463,297	290,315	196,227	167,600
Interest expense	498,986	324,083	98,976	38,183	40,829
Income taxes	18,893	118,887	356,320	230,599	136,643
Consolidated EBITDA	998,295	2,046,811	1,658,662	1,068,258	726,252
Add:					
Foreign exchange (gain) loss	174,336	877,428	(54,700)	(58,773)	37,435
Consolidated Adjusted EBITDA	1,172,631	2,924,239	1,603,962	1,009,485	763,687
Mining Segment EBITDA and Adjusted EBITDA reconciliation:					
Net income attributable to shareholders of Mechel OAO	622,207	1,200,445	403,525	117,803	317,411
Add:					
Depreciation, depletion and amortization	225,078	280,276	136,479	84,167	58,678
Interest expense	254,161	120,594	40,046	11,202	5,361
Income taxes	6,214	295,697	133,574	64,475	74,078
Mining Segment EBITDA	1,107,660	1,897,012	713,624	277,647	455,528
Add:					
Foreign exchange (gain) loss	(68,569)	142,282	(7,446)	(15,823)	14,165
Mining Segment Adjusted EBITDA	1,039,091	2,039,294	706,178	261,824	469,693
Steel Segment EBITDA and Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(300,560)	229,522	375,115	387,763	59,830
Add:					
Depreciation, depletion and amortization	116,800	137,492	124,156	102,257	95,715

Interest expense	233,090	181,536	77,634	26,471	35,158
Income taxes	4,885	81,022	132,557	127,008	61,661
Steel Segment EBITDA	54,215	629,572	709,462	643,499	252,364
Add:					
Foreign exchange (gain) loss	80,243	336,543	(54,700)	(58,773)	37,435
Steel Segment Adjusted EBITDA	134,458	966,115	654,762	584,726	289,799

Table of Contents

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands of U.S. dollars)				
Ferroalloys Segment EBITDA and Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(309,922)	(283,235)	222,024	99,458	(9,034)
Add:					
Depreciation, depletion and amortization	48,727	22,738	13,366	9,224	11,885
Interest expense	123,589	92,611	1,344	440	255
Income taxes	2,236	(252,188)	87,026	37,019	531
Ferroalloys Segment EBITDA	(135,370)	(420,074)	323,760	146,141	3,637
Add:					
Foreign exchange (gain) loss	162,735	398,768	(1,830)	1,657	
Ferroalloys Segment Adjusted EBITDA	27,365	(21,306)	321,930	147,798	3,637
Power Segment EBITDA and Adjusted EBITDA reconciliation:					
Net income (loss) attributable to shareholders of Mechel OAO	1,793	3,037	(13,597)	6,066	1,230
Add:					
Depreciation, depletion and amortization	16,070	22,791	16,314	579	1,322
Interest expense	27,828	31,585	20,332	448	286
Income taxes	5,558	(5,644)	3,163	2,097	373
Power Segment EBITDA	51,249	51,769	26,212	9,190	3,211
Add:					
Foreign exchange (gain) loss	(73)	(165)	228	267	(263)
Power Segment Adjusted EBITDA	51,176	51,604	26,440	9,457	2,948

EBITDA and Adjusted EBITDA are measures of our operating performance that are not required by, or presented in accordance with, U.S. GAAP. EBITDA and Adjusted EBITDA are not measurements 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, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

EBITDA and Adjusted EBITDA have limitations as analytical tools, 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:

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

EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on our operating performance.

EBITDA and Adjusted EBITDA do 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 EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect our future cash requirements for such replacements.

Table of Contents

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

Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using EBITDA and Adjusted EBITDA only supplementally. See our consolidated statements of income and comprehensive income and consolidated statements of cash flows included elsewhere in this document. EBITDA presented here may not be the same as EBITDA defined in our loan agreements.

Exchange Rates

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

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

	Rubles per U.S. Dollar			
Year Ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2009	36.43	28.67	31.72	30.24
2008	29.38	23.13	24.86	29.38
2007	26.58	24.26	25.58	24.55
2006	28.78	26.18	27.19	26.33
2005	29.00	27.46	28.29	28.78

(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 2010	29.98	29.19
February 2010	30.52	29.88
January 2010	30.43	29.38
December 2009	30.76	29.06
November 2009	29.82	28.67
October 2009	30.12	28.94

The exchange rate between the ruble and the U.S. dollar on April 26, 2010 was 29.27 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

Acquisition of Laminorul S.A. Braila

On February 25, 2010, we acquired 100% of the shares of Donau Commodities SRL which holds 90.9% of the shares of Laminorul Plant S.A. Braila (**Laminorul Plant**), a steel plant located in Braila (Romania) and listed on the Bucharest Stock Exchange, for consideration of 9.4 million subject to a final price adjustment. On April 19, 2010, the Romanian Competition Council approved the transaction. The acquisition is consistent with our program of expanding production and sales of steel products, in particular related to construction and building industries in Romania.

Laminorul Plant is located in southeast Romania in close proximity to the Braila ports on the Danube River. The plant has two rolling mills for production of shapes (including beams, channels, equal and unequal

Table of Contents

angles for machinery and construction), which have a production capacity of over 380,000 tonnes of rolled products per year. Laminorul Plant is the only producer in Romania of flat bulb steel used in shipbuilding.

Placement of Russian Bonds

On March 16, 2010, we placed non-convertible interest-bearing exchange bonds, admitted to trading by MICEX, in the total principal amount of 5.0 billion rubles ($170.4 million as of the placement date). The bonds are due on March 12, 2013. Interest is to be paid on a semi-annual basis at a rate of 9.75%. We intend to use the proceeds of the bond to optimize our credit portfolio by repaying more expensive short-term secured bank loans.

On April 12, 2010, three additional issues of our non-convertible interest-bearing exchange bonds in the total principal amount of 13.0 billion rubles were admitted to trading by MICEX. We can place these bonds at any time subject to market conditions. On April 16, 2010, we started placing two of these bond issues for a total principal amount of 10.0 billion rubles. The bonds will be due on the 1092nd calendar day after the date of commencement of placement. The interest rate for all six coupons will be determined during book building on April 26, 2010. The end of placement is scheduled for April 28, 2010.

Extension of Facility Agreements with Gazprombank

On February 24, 2010, the maturity dates of the facility agreements executed by our subsidiaries Yakutugol and Southern Kuzbass with Gazprombank OAO (**Gazprombank**) on February 6, 2009 for a total amount of $1.0 billion were extended. The facilities are to be repaid in eight equal amounts on a quarterly basis starting from the first quarter of 2013. Interest is paid on a monthly basis at the rate of 9%.

Fire at Mechel-Coke

On March 11, 2010, a fire destroyed a pipeline for recycling coke gas and damaged parts of a tunnel at Coke Shop No. 2 of Mechel-Coke, a subsidiary of Chelyabinsk Metallurgical Plant, during scheduled steam-cleaning of the pipeline. The accident caused the death of one of our employees and injured another. Operations at the damaged coke oven battery were suspended.

These operations resumed on March 19, 2010. The suspension did not impact operations at the blast furnace production shop of Chelyabinsk Metallurgical Plant. On March 26, 2010 the Russian Federal Service for Ecological, Technological and Atom Supervision (**Rostekhnadzor**) concluded that the accident was caused by high pressure of gas during steam cleaning operations. While Mechel-Coke was not faulted for the accident, some managers of Mechel-Coke are under investigation of the Prosecutor office of Chelyabinsk Metallurgical District for violating safely regulations and could face administrative and criminal charges.

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 a working capital deficit and recently faced a liquidity shortage.

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. We also breached various financial and non-financial covenants in our loan agreements at that time.

Table of Contents

As of 31 December 2008, our total indebtedness was $5,369.2 million, with a short-term portion of $5,149.4 million, which included $4,233.8 million in loans with covenant violations out of which $1,563.6 million was long-term debt which was reclassified as short-term debt due to loan covenant violations. We had a working capital deficit of $3,596.3 million. 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 continued negotiations with our banks, there was substantial doubt about our ability to continue as a going concern as of June 1, 2009, the date of the issuance of our consolidated financial statements for the year ended December 31, 2008.

In late 2008 and early 2009, to address our liquidity shortage we obtained major loans from Russian state-owned banks. In July 2009, we completed the restructuring and refinancing of our Oriel Resources and Yakutugol facilities with a syndicate of 27 international and Russian banks. Our principal objective in negotiating the debt restructuring was to prolong loan repayments scheduled in year 2009 to year 2010 or later and reset the covenants in order to give us more time and flexibility to meet our debt obligations in anticipation of a recovery in commodity and steel prices. Through the course of 2009, we also placed three series of ruble bonds in the total principal amount of 15.0 billion rubles ($503.9 million).

The weakness in the demand and prices for our products through the first half of 2009, however, continued to negatively impact all our segments. For the year ended December 31, 2009 we had operating income of $245.6 million, as compared to $2,556.3 million for the year ended December 31, 2008. Net cash provided by operating activities was $561.7 million for the year ended December 31, 2009, as compared to $2,229.9 million for the year ended December 31, 2008. As of 31 December 2009, our total indebtedness was $5,997.5 million, an increase of $628.3 million from December 31, 2008. Short-term portion of our total indebtedness was $1,923.0 million as of December 31, 2009, as compared to $5,149.4 million as of December 31, 2008. Working capital deficit improved to $537.1 million as of December 31, 2009, as compared to $3,596.3 million as of December 31, 2008. Cash and cash equivalents as of December 31, 2009 were $414.7 million, as compared to $254.8 million as of December 31, 2008. As of December 31, 2009, we had breached a number of financial and non-financial covenants in various loan agreements but we received appropriate consents and covenant amendments from the banks and as of the date of the issuance of the consolidated financial statements for the year ended December 31, 2009.

We have experienced increasing price levels for our products in the later part of 2009 and early 2010 compared to the first half of 2009. Although there is no certainty that such experience will continue in the future, our plans for 2010 are based on a continuation of these improved price levels accompanied by an increase in demand for our products. On this basis we expect operating cash flows to provide an increased source of funds in 2010 to be available for capital expenditures and debt servicing. We believe that cash generated from operations, current cash and short-term investments on hand, and borrowings under our credit facilities will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments in 2010. See Operating and Financial Review and Prospects Debt Financings in 2009 and Outlook for 2010. See also notes 2 and 15 to our consolidated financial statements. 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 restructure our existing debt and/or to seek additional capital. There is no guarantee that we would be successful in restructuring 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 restructuring or new capital may be detrimental to holders of ADSs and shares. Any such deterioration, affect or failure could have a material adverse effect on our business, results of operations and financial condition and the trading price of the ADSs and shares.

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

Table of Contents

as debt we incurred to finance our working capital needs and investment program in late 2008 and 2009. A substantial portion of our bank loans are from Russian banks, including state-owned banks such as Sberbank, VTB Bank and Gazprombank. As of December 31, 2009, our consolidated total debt, including capital lease obligations, was $6,092.2 million, with a short-term portion of $1,959.0 million. Our interest expense for the year ended December 31, 2009 was $499.0 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 85% of Yakutugol, 70% of Southern Kuzbass Coal Company, 35% of Chelyabinsk Metallurgical Plant and 50%-1 share of Oriel Resources. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders.

Our ability to make payments on our indebtedness depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to 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. We cannot provide any assurance that any refinancing or additional financing would be available on acceptable terms. Our inability to generate sufficient cash flow 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 capital investment program is an important part of our business strategy. In addition, our business requires maintenance capital expenditures in order to maintain existing production levels. We spent $612.7 million during 2009 (including $72.4 million in maintenance capital expenditures) and our capital investment program includes capital spending of up to $1.4 billion in 2010 (including up to $244.9 million in maintenance capital expenditures). These planned capital expenditures include investments in Yakutugol, including those required to be made pursuant to the terms of the subsoil license for the undeveloped Elga coal deposit. Our capital investment program includes capital spending of up to $3.7 billion for the three-year period of 2010-2012 (including up to $564.7 million in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program. Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt and equity financing. This, to a certain extent, is subject to general economic, 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 relative to our free cash flows and pledges of shares and assets of our subsidiaries to our current lenders.

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 require or may be expensive. 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. These and other related events have had a significant impact on the global capital markets, and the reduced liquidity in the global capital markets could limit our ability to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources 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.

Table of Contents

Inflation could increase our costs and decrease operating margins.

In 2009, the inflation rate in Russia was 8.8% and averaged 11.3% over the 2005-2008 period, 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.

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.

Among other things, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially: (1) limit our ability to obtain additional financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) place us at a competitive disadvantage 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.

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 American Depositary Shares (**ADSs**) and our unregistered global depositary shares representing our common shares (**GDSs**), 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. 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 shares have a listing status A on RTS and 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, or whether the newly enacted limits will override prior FFMS permissions for higher amounts. Our 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 ADSs and GDSs and deliver a corresponding number of the underlying common shares to holders of ADSs and GDSs. We have also received FFMS permission for a total of 41,627,074 preferred shares to be circulated in the form of global depositary receipts, representing 30% of the total number of preferred shares currently authorized for issuance, which was the maximum amount allowed at that time. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

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 results in a decrease in our

15

Table of Contents

costs relative to our revenues. In 2009, the ruble depreciated in real terms against the U.S. dollar by 12.2% as compared with 2008, according to the Central Bank of the Russian Federation.

Conversely, appreciation in real terms of the ruble against the U.S. dollar, which was the prevailing trend in the 2002-2007 period, 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.

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 euros. 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, there may be delays or other difficulties in converting rubles into foreign currency to make a payment or delays in or restrictions on the transfer of foreign currency. This, in turn, could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business could be materially adversely affected if our lenders accelerate our debt.

The terms of most of our loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings, covenants and events of default. Additionally, our loan agreements contain cross-default provisions whereby an event of default under one agreement may in and of itself result in a cross-default under other agreements. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. 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, restructuring, investments into certain of our subsidiaries and others, require prior consent from the respective lenders.

In 2008 and early 2009, we were in breach of certain covenants in certain of our loan agreements representing 78.9% of our total indebtedness as of December 31, 2008. In July 2009, we restructured all these loans. As of December 31, 2009, we were in breach of a number of financial and non-financial covenants in various loan agreements, but we received appropriate consents and covenant amendments from the banks, and currently, we do not have any violations of any covenants under our loan agreements which could lead to the demand for accelerated repayment of principal and interest. See note 15 to our consolidated financial statements. We cannot assure you that we will be able to obtain such consents and covenant amendments in the future.

Our ability to continue to service, repay and refinance our indebtedness and to comply with our financial and other loan covenants will depend on our ability to generate cash in the future and attract new financing and refinance the existing indebtedness, as well as 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 our breach of financial and other covenants in our loan agreements, including defects in security, will not result in new and renewed 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 loan covenants contained in any of our loan agreements, including compliance with financial ratios or fail to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of our breaches of our loan agreements or amend our loan agreements, such failure could be deemed by the lenders to be an event of default which could result in, among other things, 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, 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 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 have had in the past and still have material weaknesses in our internal control over financial reporting, and we make no assurances that additional material weaknesses will not be identified in the future.

Management identified five material weaknesses 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, 2009. The material weaknesses in our internal control over financial reporting identified for the year ended December 31, 2009 are described in Item 15. Controls and Procedures. Due to the effect of these material weaknesses, our auditors have opined that we have not maintained effective internal control over financial reporting as of December 31, 2009 under Section 404 of the Sarbanes-Oxley Act of 2002. Our auditors have also opined that we did not maintain effective internal control over financial reporting as of each of December 31, 2006, 2007 and 2008, due to the effect of the material weaknesses identified as of those dates.

Notwithstanding the steps we have taken and continue to take that are designed to remedy each material weakness identified in Item 15. Controls and Procedures, we may not be successful in remedying these material weaknesses in the near or long term and we make no assurances that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting 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. Under these circumstances, we may have difficulty in remedying the material weaknesses in our internal financial controls

identified by our management and in the timely and accurate reporting of our financial information in accordance with U.S. GAAP. See We have had in the past and may still have material weaknesses in our internal control

Table of Contents

over financial reporting, and we make no assurances that additional material weaknesses will not be identified in the future.

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 and iron ore. 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 specialty long products, stainless flat products, wire products, forgings and stampings. The steel industry is highly cyclical in nature because the industries in which steel customers operate are subject to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw material 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 nickel, 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.

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 on our prices, sales volumes or business practices. Terms of sales of other types of our products may also be affected by regulations of the authorities, in particular, according to publicly available information, certain Russian steel consumers recently approached FAS with a request to investigate pricing of some steel products on the Russian market. 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 impact on our business, financial condition, results of operations and prospects.

Table of Contents

The steel, mining and ferroalloy 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.

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 8.0% in 2007, 21.1% in 2008 and 11.0% in 2009. 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 cost 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 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 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.

The financial performance of our mining segment depends on the availability of an adequate supply of coal reserves that can be mined at competitive costs.

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. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. Our ability to obtain other reserves through acquisitions in the future could be limited by restrictions under our existing or future 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. Our planned development projects and acquisition activities 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 developed 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 more difficult and expensive to obtain and the review process continues to lengthen.

Table of Contents

We face numerous uncertainties in estimating our economically recoverable reserves, and inaccuracies in our estimates 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, 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 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 coal 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.

For these reasons, estimates of the economically recoverable quantities and qualities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected from particular reserves prepared by different engineers or by the same engineers at different times may vary substantially. Actual tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. These estimates thus may not accurately reflect our actual reserves. Any inaccuracy in our estimates related to our reserves could result in lower than expected revenues, higher than expected costs or decreased operating margins.

In addition, the calculation of reserves of the Elga coal deposit, which we acquired in October 2007 along with our acquisition of Yakutugol, is subject to certain risks due to the license obligations and capital costs involved in developing the required infrastructure and commencing production and the nature of the undeveloped Elga coal deposit. In particular, due to the significant capital investment required to develop the Elga coal deposit, it is not expected to generate a return on capital until after the current license period. See Item 4. Information on the Company Mining Segment Mineral reserves (coal, iron ore and limestone) Coal.

Successful implementation of our strategy to expand our specialty long product 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 specialty long products, our strategy to expand these sales substantially is dependent on our ability to increase our exports of these products to other countries, particularly the E.U. countries. We face a number of obstacles to this strategy, including trade barriers and sales and distribution challenges, insufficient capacity of Russian sea ports, 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 from our coal assets in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries. Insufficient capacity of Russian ports generally limits exports by Russian producers. Our ability to increase coking coal export volumes is also limited by requirements to first satisfy domestic Russian 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

Table of Contents

expansion strategy could have a material adverse effect on our business, financial condition, results of operations and prospects.

If shares of our subsidiary holding companies are listed on a stock exchange, it could entail changes in such companies management and corporate governance that might affect our integrated business model.

While we intend to continue to operate as an integrated business, if and when a listing of shares takes place in respect of the subsidiary holding companies we are forming or intend to form to consolidate our mining, steel and ferroalloy assets, changes to the management structure of such subsidiary holding companies and/or the assets consolidated within them may be made in preparation for such a listing. After a listing of a subsidiary holding company, 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. In addition, companies listed on stock exchanges comply with certain corporate governance requirements and are encouraged to implement certain corporate governance recommendations, including the appointment of independent directors. These and other changes, if implemented in connection with the consolidation and potential listing of subsidiaries holding our mining, steel and ferroalloy assets, may result in decision-making by the directors and management of such subsidiaries that may not be consistent with our current integrated business model. As our integrated business model is the key to our strategy, changes in decision-making by our subsidiaries directors and management in connection with a listing may materially adversely affect our business, financial condition, results of operations and prospects.

Our business strategy envisions additional acquisitions and continued integration, and we may fail to identify suitable targets, identify all potential liabilities associated with them or successfully integrate them into our group.

Our strategy relies on our status as an integrated mining, steel, ferroalloys and power group, 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, steel, ferroalloys and power producers. We also 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.

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. It may take some time to implement our operating standards and adjust them according to local laws, and it is possible that for a certain period of time we may

Table of Contents

face some uncertainties with respect to the operational and financial needs of these businesses, which may hinder our integration efforts.

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.

For example, in the case of the Bluestone acquisition, though we performed a pre-acquisition review of the companies assets, liabilities, operations, legal matters and financial condition and though we believe we have identified in this document the current material risks associated with the Bluestone companies in the context of our group, we may not have yet fully identified the extent of the historical, current and future costs related to the Bluestone companies assets, liabilities, operations, legal matters and financial condition, including health, safety and environmental liability, problems with permits and regulatory compliance, labor issues and potential litigation. As noted above, implementing our operating standards at newly acquired companies takes time, and our assumptions regarding the liability and cost of operating U.S. assets and doing business in the United States are subject to change as we integrate the Bluestone companies into our group. If more than expected liabilities and costs associated with the Bluestone acquisition arise, including liabilities and costs that affect the calculation of coal reserves owned or controlled by the Bluestone companies, we may not realize the investment benefits, operational synergies and marketing advantages we expect from the Bluestone acquisition, which could 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 privatized companies, and our business strategy will likely involve the acquisition of additional privatized companies. 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 in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

Certain of our Russian subsidiaries are required to either purchase or lease the land on which they operate.

Much of the land occupied by privatized Russian companies, including most of our subsidiaries, was not included in the privatizations of these companies and is still owned by federal, regional or municipal governments. The companies use the land pursuant to a special title of perpetual use whereby they have the right to use the land but do not have the right to alienate such land.

The Land Code of the Russian Federation, as amended, which was enacted on October 25, 2001 (the **Land Code**), requires privatized Russian companies to either purchase or lease the land on which they

Table of Contents

operate by January 1, 2012. In accordance with the current legislation the repurchase price of land plots held under special title of perpetual use is set in the amount of 2.5% of the cadastral value of such land plots. We estimate that the repurchase cost of such land plots is $62.5 million.

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

In 2009, our Russian operations purchased approximately 4.2 billion kilowatt-hours (**kWh**) of electricity, representing 75% of their needs, at a total cost of $176.4 million, implying an average cost of 4.2 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 is due to expire in 2011. This could lead to higher electricity prices. In addition, according to a long-term macroeconomic forecast made by the Ministry for Economic Development of the Russian Federation in 2008, electricity prices for industrial users are expected to reach 7.4-7.5 cents per kWh by 2015 and 8.5-9.6 cents per kWh by 2020. 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 Gazprom OAO (**Gazprom**). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian government. These prices have been consistently rising over the last few years until 2009. In 2009, we purchased 940,994.5 thousand cubic meters of gas at a total cost of $236.6 million, implying an average price of $251.4 per thousand cubic meters, which was 29% lower than in 2008 due to the global financial crisis. According to the forecast of the Ministry for Economic Development of the Russian Federation, price for gas is expected to reach the level of $343.4 per thousand cubic meters by 2012. Further, 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. The Ministry for Economic Development of the Russian Federation has forecasted natural gas prices in the range of $280.0 to $298.2 per thousand cubic meters in 2010.

After the 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 the Russian Federal State Statistics Service, after adjusting for inflation, the average wage in the Russian Federation has risen at the average annual rate of 13.6% in ruble terms in the 2005-2008 period. 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, an open joint-stock company wholly owned by the Russian government. Russian Railways 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. 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 Russian Railways rolling stock, track infrastructure and passenger- and cargo-handling facilities.

Table of Contents

Our cargoes are currently transported in the railcars of either Russian Railways or third party owners engaged for transportation, as well as in our own railcars. The most significant railcar owner is Pervaya Gruzovaya Kompaniya OAO (**First Freight Company**), a wholly-owned subsidiary of Russian Railways, which provides us with its railcars, mainly to transport coal products and iron ore concentrate. At present, only two companies, Russian Railways and First Freight Company, possess a sufficiently extensive railcar fleet to service our present and future requirements.

Our subsidiary Mecheltrans works with First Freight Company to arrange for transportation and forwarding of cargoes with the railcar fleet owned by First Freight Company. Our freight volume transported by First Freight Company s railcars amounted to 7.2 million tonnes in 2009, for which we paid $85.2 million.

In 2009, tariffs were indexed twice, which resulted in an 11% average tariff increase. With effect from January 10, 2010, all tariffs have been increased by an additional 9.4%. 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 materially adversely affect our business, financial condition, results of operations and prospects.

We face numerous protective trade restrictions in the export of our steel products and ferroalloys, and we may face export duties in the future.

We face numerous protective tariffs, duties and quotas which reduce our competitiveness in, and limit our access to, particular markets. Several key steel importing countries currently have import restrictions in place on steel products or intend to introduce them in the future. The European Union has a quota system in place with respect to Russian steel imports, which affected our exports to ten countries in Central and Eastern Europe and the Baltic states (Estonia, Lithuania and Latvia) that joined the European Union in 2004 as well as to Romania and Bulgaria, which joined the European Union in 2007. Our sales into the European Union constituted approximately 17.9% of our steel segment revenues and approximately 50.6% of our steel segment export revenues in 2009. The export of our steel into the European Union is an important part of our growth strategy. If E.U. quotas are not increased in line with our sales growth objectives, our ability to expand our sales in the European Union and pursue our growth strategy could be limited. In addition, the European Union has imposed antidumping duties on certain of our steel exports.

Our ferroalloys business is also subject to export restrictions. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. Our sales into the European Union constituted approximately 8.4% of our revenues from the ferrosilicon sales and approximately 1.5% of our total ferroalloys segment revenues in 2009.

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, which 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 value. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2009. In January 2009, the Russian government increased the import duties on certain types of steel products (corrosion-resistant steel and some other steel products) from 5% to 15%. These tariffs and duties may be reduced or eliminated in the future, which could materially adversely affect our business, financial condition, results of operations and prospects. 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.

In August 2007, Russia and Ukraine signed an agreement imposing quotas on the export of Ukrainian steel bars to the Russian market. The total quota of steel bars from Ukraine to Russia is equal to 1,205,000

Table of Contents

tonnes during the effective term of the trade agreement and is divided into annual volumes. We believe that we benefit from this agreement because it prevents subsidized Ukrainian exports from reducing the prices we otherwise could obtain for these products in the Russian market. However, the agreement expires on January 1, 2011.

From March 20, 2007 to March 20, 2010, Russia imposed an antidumping duty on corrosion-resistant steel originating in the European Union at the rate of 840 per tonne. This duty benefited us while in force. The elimination of this duty will have a negative effect on our sales on the Russian market.

According to available public information, Russia has taken part in negotiations to join the World Trade Organization (the **WTO**). Russia s potential future accession to the WTO could negatively affect our business, financial condition, results of operations and prospects. In particular, Russia s entry into the WTO may require gradual reduction or elimination of import tariffs and duties on steel products, causing increased competition in the Russian steel market from foreign producers and exporters.

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

Chemical substances contained in some of our products, as well as by-products and waste, which we export to or produce in the European Union are subject to regulation (EC) No 1907/2006 on registration, evaluation, authorization and restrictions of use of chemicals (**REACH**) that entered into force on June 1, 2007. Under REACH, we must provide a registration dossier for such substances to the European Chemical Agency (**ECHA**). In accordance with REACH, we pre-registered substantially all the substances that we export to or produce in the E.U. prior to December 1, 2008. We are currently preparing the applications for the next stage of the registration process. Significant resources are required to complete this process and, if such resources are not available internally, we may need to engage third parties for additional costs. If we fail to register a substance by the relevant deadline, we will not be allowed to export the specific product into the E.U. or produce it in the E.U. which could have a material adverse effect on our business, financial condition, results of operations and prospects.

REACH provides for a special authorization regime for substances of high concern, including those that are identified from scientific evidence as causing probable serious effects to humans or the environment on a case-by-case basis. To obtain authorization, a manufacturer of substances of high concern is generally required to demonstrate that the risk from the use of the substance is adequately controlled. All substances under the authorization regime are subject to restrictions with respect to manufacture, placing on the market or use. The European Commission may amend or withdraw the authorization, even one given for adequate control, if suitable substitutes have become available. Currently, none of our products contain substances which are considered to be substances of high concern. 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, 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 business 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

Table of Contents

(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 the Lenin underground mine (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.

Furthermore, the risk of occurrence of these hazards is 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 dangerous facilities. See Item 8. Financial Information Litigation Environmental and safety.

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. In addition, we are currently assessing whether our Romanian and Bulgarian operations will face higher environmental compliance costs due to the integration of these countries into the E.U. See note 26(c) to our consolidated financial statements.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2009, we have not created any reserves for environmental liabilities and compliance costs, other than an

accrual in the amount of $59.7 million for asset retirement obligations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

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 90-day period. We have been cited in Russia for various violations of

Table of Contents

environmental regulations in the past and we have paid certain fines levied by regulatory authorities in connection with these infractions. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective periods since we acquired or established them, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In the event that production at any of our facilities is partially or wholly suspended due to this type of sanction, our business, financial condition, results of operations and prospects could be materially adversely affected.

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 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 Our business strategy envisions additional acquisitions and continued integration, and 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 Protocol, including the Russian Federation. 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. Since October 2009, Russia has established a legal procedure for implementing clean development and trading mechanisms provided under the Kyoto Protocol. The European Union has already 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 1 January 2005, has had an impact on greenhouse gas and energy-intensive businesses based in the European Union. Our operations in Bulgaria, Lithuania and Romania are currently subject to the EU ETS, as are our EU 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 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 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.

Table of Contents

Our business could be adversely affected if we fail to obtain or renew 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 subsoil licenses and our compliance with the terms thereof, particularly subsoil licenses for our Russian and Kazakh mining operations. Regulatory authorities exercise considerable discretion in the timing of license issuance, renewal 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 Russian Regulation Subsoil licensing Maintenance and termination of licenses. If regulatory authorities determine that we have violated the terms of our licenses, it could lead to suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. See Item 4. Information on the Company Mining Segment Mineral reserves (coal, iron ore and limestone). 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.

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.

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. 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.

If we fail to meet certain deadlines under our subsoil license for Elga it may be suspended or terminated.

We hold the license to the undeveloped Elga coal deposit in the Sakha Republic, which contains large quantities of export-quality coking and steam coal. As part of the license conditions, we are required to meet certain operational milestones, including the construction of a rail branch line of approximately 315 kilometers in length by

September 30, 2010 and the mining plant and the commencement of coal production by November 2010. The current construction schedule is very aggressive and, due to limited financing during the period from September 2008 to August 2009 because of the global financial crisis, it may not be achievable. In order to be in compliance with the license, we have filed an application with the Ministry of Natural Resources and Ecology to amend the terms of the

Table of Contents

license and extend the deadlines. If current construction schedule is not met and the terms of the license are not amended to extend current deadlines, our subsoil license for Elga deposit may be suspended or terminated.

The concentration of our shares with our controlling shareholder will limit your ability to influence corporate matters.

Our Chief Executive Officer, Igor Zyuzin, directly and indirectly owns approximately 66.76% 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 shareholders meeting are adopted by a simple majority at a meeting at which 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 vote at a 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 vote of shares represented at such a shareholders meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in the meeting. Thus, our controlling shareholder can take actions that you may not view as beneficial, 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 other key personnel, particularly Mr. Zyuzin, our Chief Executive Officer and controlling shareholder. Mr. Zyuzin has provided, and continues to provide, strategic direction and leadership to us.

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

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

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

As of March 29, 2010, nine 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 on a certain market, including:

Beloretsk Metallurgical Plant as controlling 100% of the market for local telephony services in Beloretsk;

Chelyabinsk Metallurgical Plant as controlling more than 65% of the market for forgings made of stainless steel ingots in the Russian market;

Table of Contents

Southern Urals Nickel Plant as controlling more than 65% of the market for nickel in sulfate and hydroxide in the Russian Federation;

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 as controlling more than 50% of the market for the trading of electricity in the cities of Mezhdurechensk, Myski and Novokuznetsk;

Yakutugol, including its subsidiaries *Dzhebariki-Khaya Mine OAO* and *Kangalassk Open Pit Mine OAO* 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 as holding a dominant market position as the sole supplier of Far East Generating Company OAO (**Far East Generating Company**), a power plant designed to consume only the type of coal produced by Yakutugol and its subsidiaries; and

Moscow Coke and Gas Plant as controlling 100% of the market for cargo transportation services on the company s rail siding in the Lenin District of 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 on 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, Southern Kuzbass Coal Company and Korshunov Mining Plant, as a group of companies holding a dominant position on the Russian coking coal market, to fulfill the following requirements:

to support certain production volumes and product lines;

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

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

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

In connection with the establishment of Mechel Mining, the subsidiary into which we consolidated certain of our mining assets, we received a directive from the FAS dated June 23, 2008, which contains requirements as to the activities of Mechel Mining and its subsidiaries Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position on 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

Table of Contents

position on 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 the Mechel Mining Management group any profit that is significantly higher than it could be in a competitive market.

In addition, in connection with our transfer of management of Beloretsk Metallurgical Plant to Mechel-Steel Management, in 2008 the FAS issued a directive addressed to these companies. In 2009, we received five directives from the FAS, addressed to Mechel-Steel Management, Beloretsk Metallurgical Plant, Izhstal, Chelyabinsk Metallurgical Plant, Vyartsilya Metal Products Plant and Urals Stampings Plant. Furthermore, in connection with our transfer of management of Southern Urals Nickel Plant and Bratsk Ferroalloy Plant to Mechel Ferroalloys Management and the consolidation of our ferroalloy assets under our subsidiary Oriel Resources, in October 2008 the FAS issued two directives addressed to Mechel Ferroalloys Management and one directive addressed to Oriel Resources, and in November 2008 the FAS issued one additional directive addressed to Mechel and Bratsk Ferroalloy Plant. The requirements under all ten of 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, nickel products, stampings, wire products and certain other steel products; 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 on the Russian market of coking coal concentrate. The FAS issued a directive requiring these subsidiaries to: (1) refrain from establishing monopolistically high or low prices; (2) provide, to the extent possible, equal supply terms to all customers without discrimination; (3) submit economic justifications for each coking coal concentrate price increase of more than 5% as compared to the prices of the previous quarter to the FAS, during the next 5 years; (4) reduce sale prices by 15% for the period from September 2008 until December 2008; and (5) offer to conclude long-term supply contracts of at least three years duration with a formula of price calculation and with fixed volumes for the entire period of the contract with consumers of coking coal concentrate. 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 for 2007.

In the event of 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 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.

Table of Contents

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.

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 intra-group approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature 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 vote of the holders of voting stock present at a shareholders meeting to approve certain transactions and other 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 of good labor relations.

As of December 31, 2009, approximately 71% of 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 have been recently affected by 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. Although industry agreements with trade unions on coal and mining and metallurgical industry have been signed, we have not yet renewed all our corresponding collective bargaining agreements. If we are unable to update collective bargaining agreements on similar conditions at the expiry of their terms or our employees are dissatisfied with the terms

Table of Contents

of renewed collective bargaining agreements, any industrial action by our employees could have material adverse effects on our business, financial condition, results of operations and prospects.

Approximately half of the Bluestone companies workforce is represented by the United Mine Workers of America (**UMWA**) labor union and are covered by the Bituminous Coal Wage Agreement of 2007 which expires in 2011. Though we believe the Bluestone companies have a good relationship with the UMWA, there are no assurances that our acquisition of Bluestone will not be detrimental to that relationship. 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. Additionally, 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. As of July 1, 2009, the UMWA pension plan s unfunded liability was $3.8 billion.

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 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.

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

Table of Contents

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, 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. 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 20 to our consolidated financial statements.

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

Table of Contents

In addition, given that the depositary is already the record owner of approximately 35% of our shares under our ADS program, then the following requirements may become applicable to the depositary:

Under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of the common shares and voting preferred shares of an open stock company such as Mechel (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for all other shares of the same class and for securities convertible into such shares (mandatory offer). From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or 50% or 75%, as the case may be) of the company s common shares and voting preferred shares (regardless of the size of their actual holdings). See Item 10. Charter and Certain Requirements of Russian Legislation Change in Control Anti-takeover protection . Under Russian law, the depositary may be considered the owner of the shares underlying the ADSs, and as such may be subject to the mandatory public tender offer rules. See As the depositary may be considered the owner of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Under Russian antimonopoly legislation, certain transactions resulting in a shareholder (or a group of persons, as defined by Russian law) holding directly more than 25%, 50% or 75% of the voting capital stock of a company (such as Mechel) or the right to control the company indirectly must be approved in advance by FAS. See Item 10. Charter and Certain Requirements of Russian Legislation Change in Control Approval of the Russian Federal Antimonopoly Service . The depositary thus may need such prior approval in the future. The depositary has received general interpretive guidance from the FAS that it need not obtain the approval referred to above in connection with depositary receipt programs such as our ADS program. If, however, the FAS were to rescind or disregard its above mentioned interpretation, the ADS program would be subject to a de facto limit of 24.99% of Mechel s outstanding voting shares, unless the depositary could obtain FAS approval for a higher percentage.

Under the Federal Law of the Russian Federation On the Procedure for Foreign Investment in Companies With Strategic Impact on the National Defense and Security of the Russian Federation (the **Strategic Industries Law**) dated April 29, 2008, the acquisition by a foreign investor, or a group of entities which includes a foreign investor, of (1) 50% or more of the voting capital stock of a company which is considered to be a strategic enterprise as defined by the Strategic Industries Law (a **Strategic Company**) or (2) 10% or more of the voting capital stock of a Strategic Company which is engaged in the geological study, exploration or production of natural resources on plots that are deemed by the Russian government to be subsoil plots of federal importance (a **Strategic Subsoil Company**), must be previously approved by the governmental commission. Some of our subsidiaries are considered Strategic Companies or Strategic Subsoil Companies. See Item 3. Key Information Risk Factors Legal Risks and Uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments . If the total number of our voting shares held by the depositary (together with any entities within its group) reaches the thresholds described above, the depositary may be required to obtain approval of the governmental commission. The depositary has received general interpretive guidance from FAS, which is competent to issue such guidance, that it does not need to obtain the approval referred to above in connection with depositary receipt programs such as our ADS program. If, however, FAS were to rescind or disregard its above mentioned interpretation, the ADS program would be subject to a de facto limit on the number of shares, unless the depositary could obtain FAS approval for a higher percentage. See Item 4. Information on the Company Regulatory Matters The Strategic Industry Law .

Table of Contents

An inability to deposit shares into the ADS program in exchange for ADSs due to the aforementioned limits or other similar regulations or circumstances may affect the liquidity and the value of your investment in the shares and ADSs.

As the depositary may be considered the owner of the shares underlying the ADSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

Because a court interpreting Russian law may not recognize ADS holders as beneficial owners of the underlying shares, it is possible that holders of ADSs could lose all their rights to those shares if the assets of the depositary in Russia are seized or arrested. In that case, holders of ADSs would lose their entire investment.

A court interpreting Russian law may treat the depositary as the owner of the shares underlying the ADSs. This is different from the way other jurisdictions treat ADSs. In the United States, although shares may be held in the depositary s name or to its order, making it a legal owner of the shares, the ADS holders are the beneficial, or real, owners. In U.S. courts, an action against the depositary unrelated to its capacity as depositary under the ADS program would not result in the beneficial owners losing their rights with regard to the underlying shares. Russian law does not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the depositary in whose name the underlying shares are held, but not the rights of ADS holders to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the 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 agreement 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 will be 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 agreement, 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.

Table of Contents

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.

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

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%. 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 advance clearance would be possible. 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 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. 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 non-resident legal entities or organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, such as the ADSs, may be subject to Russian profits tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. 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 all of our executive officers

Table of Contents

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

There is no treaty between the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to investments in the ADSs. The deposit agreement provides 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.

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 a 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. However, Russian gross domestic product declined by 7.9% in 2009, according to Rosstat. Furthermore, 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.

We and our Russian subsidiaries hold a substantial majority of ruble and foreign currency cash in Russian banks, including Russian banking subsidiaries of foreign banks, and 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 prevent us from accessing our funds or affect our ability to complete banking transactions in Russia, or may result in the loss of our deposits altogether, 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 recent turmoil in the international credit markets, the global economic slowdown and the collapse or near-collapse of several large financial institutions 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. Additionally, 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

Table of Contents

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.

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 reduced 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 collectability 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 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 3(n) to our 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, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future 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 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. Additionally, there are reports of the Russian media publishing disparaging articles in return for payment. If we 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 affect on our business, financial condition and results of operations and the value of our shares and ADSs.

Table of Contents

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

Currently the Russian labor market does not suffer from an acute shortage of skilled workers, but such a shortage may occur in the future. 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 2009, Rosstat estimated Russia s population at 142 million, a decline of almost seven million from 1992. Although the birth rate recently reached its highest rate in 15 years, the population continues to decline due to a relatively low birth rate, an aging population and low life expectancy. 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.

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,

Table of Contents

although it may be clearly evident that a particular enterprise has mined a licensed subsoil area for decades, the historical documentation relating to their 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 law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- 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;
- 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 applicable damages, and governmental authorities may seek involuntary liquidation of the company. Many 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: Kaslinsky Architectural Art Casting Plant OOO, Tikhvin Ferroalloy Plant, Mechel-BusinessService, Mechel-Service, Port Kambarka, SocResource, PromComplex, VtorResource-Yuzhny, Mechel-Zakazchik, DVNPU, and Mechel-Ferroalloys Management Company.

Table of Contents

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 a number of FAS directives 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 shareholders meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a 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

Table of Contents

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 resulting from the action or inaction of an effective parent. 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; and

- the amendment of the company s charter in a manner that limits shareholder rights.

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no 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

Table of Contents

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 agreement governing our ADSs, will not be 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:

profits tax;

value-added tax (**VAT**);

unified social tax;

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 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. Recent 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. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of 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 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 an audit and ultimately seek back taxes and penalties beyond the three year term. In some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends paid by Russian companies are subject to a withholding

tax of: (1) 0%, if distributed to company which has continuously held not less than a 50% share in the charter capital of the company paying dividends and the cost of acquisition of this share exceeded 500 million rubles; (2) 9%, if distributed to other Russian companies and/or individuals who are Russian tax residents; and (3) 15%, if distributed to foreign companies and individuals who are not Russian tax residents. 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

Table of Contents

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 could affect our ability to deduct interest on certain borrowings that we would otherwise be able to deduct. In particular, we may not be able to deduct interest on loans we extend to our subsidiaries or on borrowings which our subsidiaries receive from independent banks and which are guaranteed by us.

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, give Russian tax authorities the right to control prices for transactions between related 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 deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. As of the end of 2007, as a result of various tax audits of our companies we received assessments from the tax authorities for transfer-pricing related taxes, interest and penalties totaling 496 million rubles relating to the years 2004-2005. As a result of tax audits held in 2009, Korshunov Mining Plant was subject to an additional tax assessment of transfer pricing related taxes and incurred penalties in the amount of 73.3 million rubles for the year 2005. Korshunov Mining Plant filed a court claim against the tax authorities seeking the invalidation of this tax assessment. See Item 8. Financial Information. Litigation Tax. We have so far successfully challenged these assessments in court. If similar assessments are upheld in the future, our business, financial condition, results of operations and prospects could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties. Under Russian law, tax authorities may review past tax periods relating to the years 2007-2009 and make claims in connection with such reviews. 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 and Item 8. Financial Information Litigation Tax.

In addition, a number of draft amendments to the transfer pricing law have been introduced which, if implemented, would considerably tighten the existing law. The proposed changes, among other things, may shift the burden of proving market prices from the tax authorities to the taxpayer, cancel the existing permitted deviation threshold and introduce specific documentation requirements for proving market prices.

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 Russian Regulation The Strategic Industries Law.

Table of Contents

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 published on March 5, 2009 in the Russian official gazette *Rossiyskaya Gazeta* (the **Strategic Subsoil List**), it qualifies as a company with strategic importance for the national defense and security of the Russian Federation (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.

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 has been found by the FAS to hold a dominant position on the market of carbonic, 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 and entities that operate equipment containing radioactive materials are also deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol and Vzryvprom also qualify as Strategic Companies, as they both hold licenses to produce industrial explosives and Yakutugol, in addition, holds a license to operate equipment containing radioactive materials.

Therefore, any sale to a foreign investor or group of entities of a stake in Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom 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 Russian Regulation The Strategic Industries Law, will be subject to prior approval from 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 and, potentially, Urals Stampings Plant, will also be subject to prior approval in accordance with the Strategic Industries Law.

Additionally, 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 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 five steel mills in Romania, a wire products plant in Lithuania, a blocking minority stake in a power plant in Bulgaria 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.

Table of Contents

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 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 U.S. Environmental Protection Agency (**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. Since release of the MOU, very 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 EPA will exercise its Clean Water Act veto authority over some 404 permits that are issued by the Corps.

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.

Our U.S. mines depend on a single rail road carrier, Norfolk Southern. Disruption of any transportation services due to 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. 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.

48

Table of Contents

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 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, 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 U.S. 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

Table of Contents

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.

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. The U.S. Congress has recently considered, and there are pending, various proposals to reduce greenhouse gas emissions, and EPA recently issued several proposed determinations and rulemakings relating to greenhouse gas emissions from various sources. In the absence of federal legislation, many states and regions have undertaken greenhouse gas initiatives.

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 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 dangerous mines. 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. 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 affect on our business, financial condition, results of operations and prospects.

Table of Contents

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. Some of EPA s initiatives to reduce sulfur dioxide, nitrous oxide and mercury emissions have been the subject of litigation in recent years, and EPA continues to address issues raised in court opinions. In addition, several electric utilities have been sued by the government for alleged violations of the Clean Air Act and have faced suits by environmental groups during the initial permitting process for new coal-fired power plants, which has had a chilling effect on the construction of such plants. Both of these activities could adversely impact the demand for coal.

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 $5.8 billion in 2009, $10.0 billion in 2008 and $6.7 billion in 2007, with operations organized into four industrial segments: mining, steel, ferroalloys and power.

Our mining segment produces coking and steam coal, as well as iron ore and iron ore concentrate. The segment consists of coal and iron ore mines in Russia and the U.S. Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky basin, near Mezhdurechensk in southwestern Siberia. These mines include four open pit mines and three underground mines. Our subsidiary Yakutugol operates coal mines located in the Sakha Republic in eastern Siberia, consisting of two open pit mines and one underground mine. Yakutugol also holds the license to mine the undeveloped Elga coal deposit, which we plan to mine using the open pit method after the completion of the construction of a private rail branch line of approximately 315 kilometers in length, which will connect the Elga coal deposit to the Baikal-Amur Mainline. Our Bluestone subsidiaries operate four mining complexes in West Virginia, United States, consisting of open pit and underground mines.

We also provide coal washing services, both to our coal-mining subsidiaries and to third parties; according to Rosinformugol, a Russian coal industry information agency, at the end of 2009 we controlled 21.3% of Russia s overall coal-washing capacity.

Table of Contents

Our subsidiary Korshunov Mining Plant operates three open pit iron ore mines: Korshunovsk, Rudnogorsk and Tatianinsk. These mines are located near Zheleznogorsk-Ilimsky, a town in the Irkutsk region in central Siberia.

In April 2008, we established Mechel Mining, a wholly-owned subsidiary in which we consolidated the coal and iron ore assets of our mining segment (Southern Kuzbass Coal Company, Korshunov Mining Plant and Yakutugol; Bluestone will also be transferred under Mechel Mining). After this consolidation, Mechel Mining established Mechel Mining Management, a management company which acts as executive body of our subsidiaries in the mining segment.

Our steel segment produces and sells semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including wire products, stampings and forgings. We also produce significant amounts of coke, both for internal use 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.

Our steel and steel-related production facilities in Russia include two integrated steel mills, a coke plant, a wire products plant, a forging and stamping mill and a scrap processing facility in the southern Ural Mountains, a wire products plant in northwestern Russia near the border with Finland and a coke and coal gas plant near Moscow. Outside of Russia, our steel facilities are in the European Union, including a wire products plant in Lithuania and five steel mills in Romania.

Mechel-Steel Management acts as the executive body of our subsidiaries in the steel 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 Ferroalloys Plant (a ferrosilicon producer) in 2007. In April 2008, we completed the acquisition of 99.3% of Oriel Resources from its shareholders in a public offer conducted under the U.K. Takeover Code. 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. The acquisition of Oriel Resources was a key milestone in the development of our ferroalloy segment. The activities of this segment are aimed at increasing the efficiency of our steel segment by supplying raw materials (ferroalloys) to the steel segment for specialty and stainless steel production.

In October 2008, we completed the consolidation of our ferroalloy assets in Oriel Resources. Oriel Resources now owns a 100% interest in Tikhvin Ferroalloy Plant, a 100% interest in Bratsk Ferroalloys Plant, an 84.06% interest in Southern Urals Nickel Plant, and holds through its subsidiaries licenses for the Voskhod chrome and the Shevchenko nickel deposits in Kazakhstan. Southern Urals Nickel Plant operates two open pit nickel mines, Sakhara and Buruktal, and a nickel production plant in Orsk in the Orenburg region, in the southern part of Russia s Ural Mountains. In the course of the consolidation we established Mechel Ferroalloys Management, a management company that acts as the executive body of each of the companies in our ferroalloys segment.

Our power segment produces and sells electricity to internal and external customers. The segment was formed in April 2007, when we acquired a controlling interest in Southern Kuzbass Power Plant, located in Kaltan, in the Kemerovo region. In June 2007, we acquired a controlling interest in Kuzbass Power Sales Company, the largest power distribution company in the Kemerovo region. In December 2007, we purchased a 49% stake in Toplofikatsia Rousse JSC (**Toplofikatsia Rousse**), a power plant located in Rousse, Bulgaria, which uses steam coal mined by our Southern Kuzbass Coal Company. Our power segment enables us to market higher value-added products made from our steam coal, such as electricity and heat energy, and increase the electric power self-sufficiency of our mining and steel segments.

Our group includes a number of logistical and marketing companies that help us to deliver and market our mining products, raw steel, manufactured steel goods and ferroalloy products. We have freight seaports in Russia on the Pacific Ocean and on the Black Sea and a freight river port on a tributary of the Volga River in central Russia. We have a freight railcar pool, and we have begun building a private rail branch line to access

Table of Contents

our Elga coal deposit in Yakutia. In 2009 we started to build up our own truck fleet. 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 42 regional offices.

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 August 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 CT Corporation Systems, 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 and ADSs or the ADS deposit agreement.

Table of Contents

Table of Contents

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.

In 2008, we were the largest coking coal producer in Russia, according to the Central Dispatching Department, a Russian information agency reporting on the fuel and energy industry. In 2009, we were the fourth largest producer of coking coal in Russia, based on the data from the Central Dispatching Department, as the result of a decrease in our coking coal production in the first half of 2009. However, in the second half of 2009 we improved our position and were the second largest coking coal producer for that six month period with a 16.5% market share in the coking coal market in Russia by production volume, according to the Central Dispatching Department. At the same time, we maintained our position as Russia s largest hard-coking coal producer with a 43.8% market share in 2009, according to the Central Dispatching Department. In 2009, our export sales of coking coal were the third largest by volume among Russian companies, according to RasMin OOO (**RasMin**), a private information and research company focusing on the coal-mining industry. According to the Rosinformugol, we also control 25.2% of Russia s coking coal washing capacity by volume. According to AME Mineral Economics (**AME**) we were one of the largest coking coal exporters in the world in 2009.

We have large coking coal reserves base in Russia and a full-range offering of high-quality coal for blast furnace steel producers.

Our total coking coal reserves in Russia amounted to 181.9 million tonnes as of December 31, 2009.

Our coal reserves allow us to supply steel producers globally with a full range of coals to make high-quality coke or to use in PCI-assisted steel manufacturing. In particular, Southern Kuzbass Coal Company produces semi-hard and semi-soft coking coal concentrates and PCI grades of coal. Most of the coking coal grades of Southern Kuzbass Coal Company are sold in Russia, while PCI grades of coals are exported. Yakutugol produces hard coking coal concentrate grade used by customers both in Russia and in the Asia-Pacific region, while our newly acquired Bluestone coal assets produce hard and semi-hard coking coal concentrate grades used by customers in the United States, Europe, Asia-Pacific 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 relationship with the customers.

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

According to Metal Expert, a source for global and steel and raw materials market news, in 2009, we were Russia s second largest producer of long steel products (excluding square billets) by production volume, and largest producer of reinforcement bars (rebar) and wire rod. 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 2009 was approximately 26.9%, according to Metal Expert. According to Metal Expert and Chermet, a Russian ferrous metals industry association (**Chermet**), we are Russia s largest producer of specialty steel by production volume, accounting for 36.9% of Russia s total specialty steel output in 2009. Our product range in specialty steel is broader and more comprehensive than other Russian producers, giving us an added advantage in our markets.

55

Table of Contents

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 coking coal, iron ore and ferroalloys give us significant 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. We are capable of being fully self-sufficient with respect to coking coal and ferroalloys (FeSi, FeNi, FeCr), and 12% and 84% self-sufficient with respect to iron ore and steam coal, respectively. We believe that the level of our self-sufficiency in raw materials gives our steel business a significant competitive advantage.

In 2009, we internally sourced 61% of the coking coal, 12% of the iron ore concentrate, 57% of the nickel, 99% of the ferrosilicon and 71% of the ferrochrome requirements of our steel segment. We constantly adjust the level of inputs that we source from our group companies and external sources on the basis of external economic factors such as market prices and transportation costs, as well as internal changes in demand for certain grades or types of materials. We are capable of satisfying approximately one-fourth of our group s electricity needs from our own generation facilities; in 2009, we satisfied approximately 22% of our electricity needs internally.

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, ferroalloys 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 commodities prices tend to reduce revenues in the mining and ferroalloys industry, they also create an opportunity for increased margins in our steel business.

The high degree of vertical integration allows our Russian-based operations to have a number of cost advantages vis-à-vis many of our international competitors. These advantages include access to power and gas supplies that are inexpensive relative to many Western producers. Having 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 material 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 sea ports 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 Russia s 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 will enable us to expand the cargo-handling capacity of the port up to 9.0 million tonnes per year in 2011

and to accommodate Panamax ships, which will increase its attractiveness and utility as an export port for large volumes of coal. Port Kambarka, on the Kama River in the Udmurt Republic (a Russian administrative region also known as Udmurtia) is connected to the Volga River basin and the Caspian Sea, and is connected by canal to the Don River and the Baltic Sea. Port Temryuk on the Sea of

Table of Contents

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. We are also preparing a feasibility study for construction of a specialized coal transshipment seaport at Vanino in Russia s Far East with a capacity of up to 25.0 million tonnes per year.

As of December 31, 2009, our subsidiary Mecheltrans owned and leased more than 3,881 rail freight cars that we use to ship our products. On June 23, 2008, pursuant to the terms of our license to mine the Elga coal deposit we began construction on a private rail branch line, which we will own and control subject to applicable regulation. This rail branch line will connect the Elga coal deposit to Ulak Station on the Baikal-Amur Mainline, which in turn connects to the Transsiberian Railway, serving European Russia west of the Ural Mountains and eastward to the Pacific Ocean. We anticipate that the Elga rail branch line will not only provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the primary transportation corridor for coal, iron ore and other raw materials mined in nearby deposits. The rail branch line will be approximately 315 kilometers long. We will need to reconstruct about 60 kilometers of railways, build 250 kilometers of railway, and construct about 100 railway bridges, 33 of which we have already constructed. In 2010 we plan to construct 35 further bridges. Currently, we are reallocating our mining machinery for overburden mining on the Elga coal deposit. To date we have invested $351.9 million in the Elga project, representing 18.4% of the total estimated capital investment for the project planned for the period through 2012.

In 2009, Mechel-Service started to form its own truck fleet for metal products delivery to our clients in the Moscow region. In 2010, we plan to increase the number of trucks in Krasnodar, Ekaterinburg, St. Petersburg and Novosibirsk.

One of the lowest-cost coking coal concentrate producers worldwide

According to AME, our Russian coking coal operations are in the first quartile of the global cash cost curve. Approximately 67% of our coking coal production is mined from open pit mines, which we believe is a greater percentage than any of our major Russian competitors. Open pit mining is generally considered safer, cheaper and faster than the underground method of coal 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 and metals 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.

Our eastern Siberian coal mines of Yakutugol and its undeveloped Elga coal deposit 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 in the Russian Far East. We view the proximity of our 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 West Virginia 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 the last two years,

they have expanded their sales to Asia and Europe. In 2009, we further expanded the geography of the Bluestone companies sales by using our existing international distribution channels to Asia and South America and plan to increase production at Bluestone to 7.0 million tonnes over three years to expand sales to the growing South American markets such as Brazil.

Table of Contents

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 specialty steel and rolled long product 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 Russia west of the Urals where Russia s construction industry is most active. The construction industry was 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 2009 was approximately 26.9%.

Established distribution and sales platform

Our Mechel-Service distribution platform in Russia has 55 storage sites in 42 cities throughout Russia to serve a broad range of end customers. Fourteen 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. In 2009, we organized retail sites for small shipments to private customers which allows us to obtain additional margins. In Europe, we actively develop sales of metal products through Mechel Service Global which has offices and facilities in eight European countries. Two of these facilities provide a number of value added services to our customers including mechanic, gas, plasma, laser and water cutting, and welding, bending, and the production of welded mesh and frames. Mechel Service Global includes the business of HBL Holding which we acquired in September 2008.

Our direct access to end customers through the provision of value-added services allow us to obtain real-time market intelligence, improve production planning at our steel facilities, sell more high-margin, value-added products by addressing specific customer needs and further diversify our customer base. Until recently we were Russia s only integrated steel producer with its own developed distribution network.

We also have a non-retail sales and distribution network represented by our Swiss subsidiary Mechel Trading AG with offices in four countries and agents in five additional countries. This network facilitated sales constituting 32% of our total sales both in 2009 and 2008, reducing our reliance on the Russian market in the event that it experiences another downturn.

Track record of acquisitions

Building upon our success in turning around the coal operations of Southern Kuzbass Coal Company in the late 1990s and following our acquisition and revitalization of the Chelyabinsk Metallurgical Plant, in the last few years we have acquired other metal finishing and wire products manufacturing operations, as well as mining, power and ferroalloys operations. As we have acquired and integrated companies that are closer to the end-customers and produce higher-value-added products, the nature of our group has transformed steadily from primarily a raw materials processor to a vertically integrated, logistically coherent mining, steel, ferroalloys and power group. Since the acquisition of Chelyabinsk Metallurgical Plant we have executed over 20 acquisitions in the mining, steel, power, ferroalloy and logistic segments.

Our successful track record of identifying, acquiring and integrating target companies that complement our group is due in part to our clearly defined investment criteria, prudent approval procedures and our time-tested ability to identify synergies in target assets that can be quickly implemented while at the same time moving forward with our longer-term strategic goals. Our acquisition program evaluates potential targets to determine whether they conform to our long-term strategy to shift our product mix up the value chain, expand our mining asset base, expand into new markets and strengthen our position in existing markets and reduce costs through improved management and

intra-group synergies. With each of our acquisitions, we aim to implement improved operational and management practices. We also analyze each acquisition to determine the minimum capital expenditures necessary to achieve our target increases in productivity and efficiency, both on a per-asset and group-wide basis. We also devote the management, technological and logistical resources necessary to integrate new acquisitions into all aspects of our business, including the supply of raw materials

Table of Contents

and steel, industrial production and sales and distribution. We have a track record of using existing workforces and maintaining strong relations with the local communities where we operate following our acquisitions.

The acquisition of Yakutugol is an example of our ability to integrate new acquisitions while identifying and eliminating inefficiencies. After bringing Yakutugol under our management in October 2007, we reduced the cash cost of coking concentrate production from approximately $50 per tonne in the fourth quarter 2007 to approximately $25 per tonne in the second quarter 2008.

Recently, we acquired the Bluestone companies in the United States, which is Mechel s first experience of acquiring and integrating a company outside Eurasia. The strategic reasons for this acquisition include establishing our coal business on a worldwide level, diversifying our customer base and sales geography and improving the quality and breadth of our offering of coking coal products. With the acquisition of Bluestone, we are now able to supply our customers worldwide with a wider range of coking coal grades.

Strong and focused management team

Our current management team has significant experience in all aspects of our businesses and has successfully transformed us from a small coal trading operation to a large, integrated coal, steel, ferroalloys and power producer. Mr. Zyuzin, one of the founders of our group and our controlling shareholder, is our Chief Executive Officer. Mr. Zyuzin has over 23 years of experience in the coal mining industry and has a doctorate in coal mining technical sciences. Our Senior Vice President, Vladimir Polin, has almost 26 years of production-floor, marketing and management experience in the metals business. 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 and metals companies globally. The key elements of our strategy include the following:

Enhancing our position as a leading mining, metals and ferroalloys group

We plan to develop our existing reserves base.

We intend to build on our substantial mining experience by developing our existing coal and iron ore reserves, particularly in order to sell more high-quality coking coal and iron ore concentrate to third parties. We currently plan to increase our annual coal production from 18.0 million tonnes in 2009 to 37.0 million tonnes in 2013, and maintain our iron ore concentrate production at the level of at least five million tonnes, with a potential increase in iron ore production by up to 10-12% by 2013 resulting from upgrades at the Korshunov Mining Plant. See Capital investment Program. We intend to expand the production of the Voskhod chrome ore deposit to 1.3 million tonnes per year and to start the exploration of nickel ores at the Shevchenko deposit in Kazakhstan. We plan to further develop our ferroalloy production at Bratsk Ferroalloy Plant through mining quartzite, a raw material for ferrosilicon production, at the Uvatskoye deposit in the Irkutsk region.

We intend to develop the coking and steam coal reserves of Yakutugol. Yakutugol, which has three producing mines as well as two licenses for the undeveloped Elga coal deposit and the Piatimetrovy and Promezhutochny Seam areas, 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 seek additional mining licenses through acquisitions and/or 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 potential benefit of the private rail branch

line we are constructing to deliver Elga s future coal production to the market.

Table of Contents

We intend to increase our group s output of high-value-added steel products and continue to optimize our product mix.

We plan to continue our strategy of selectively investing in technology and equipment modernization, including expanding the use of continuous casters (concasters) in our steel manufacturing facilities, optimizing our product catalog and cutting production costs. We have already built a solid presence in the construction steel business, including the largest market share in rebar, according to Metal Expert based on Russian production volumes in 2009. We are also a market leader in wire rod production and have a strong presence in the construction steel market. We are also one of Russia s primary producers of specialty steel, having the largest market share, according to Chermet and Metal Expert based on Russian production volumes in 2009.

We intend to continue to seek out acquisition and expansion opportunities and realize the maximum potential from our completed acquisitions.

Our strategy involves finding acquisition and expansion opportunities that we believe will reinforce or complement our existing business lines. We actively monitor global mining, steel and ferroalloys markets for new opportunities.

After the financial and commodities markets stabilize we will continue to seek out opportunities to expand our group through acquisitions, including by obtaining new subsoil licenses in Russia and abroad. In doing so, we will seek to maintain and expand our presence in regions with low costs and high economic growth potential. We intend to continue to selectively acquire value-added downstream businesses such as wire products, stampings and forgings producers to help us reach our customer base, including in new markets. This downstream integration:

- is a logical extension of our specialty and low-carbon long product lines, representing a higher-margin, next value-added step for products that we already manufacture;
- is in a market less cyclical than the upstream market, reducing our exposure to market downturns and commodity price fluctuations; and
- moves us closer to our final customers, enabling us to better understand customer needs, influence buyer behavior and respond quickly to change.

Maintaining a high degree of vertical integration

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

The recent expansion of our ferroalloy mining, processing and manufacturing capacity, with the acquisition of Bratsk Ferroalloy Plant (which produces ferrosilicon used in all steel manufacturing) and the Oriel Resources assets (which we expect to more than double our capacity to mine and process ferroalloys used to make steel), is consistent with our strategy of maintaining the potential to source our raw material requirements for manufacturing higher value-added steel products. We have expanded our power generation and distribution business, and we see expansion of our power capabilities 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 the price of the electricity which is used by our facilities. However, even as we expand and develop our internal sourcing capability, we intend to adhere to our longstanding 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. The Bluestone acquisition enlarges our coking coal portfolio, adding high quality hard coking coal with low ash content. This allows us more flexibility to not only serve our coking coal customers, but also to use these grades internally in our coke production, if needed because of market conditions.

Table of Contents

We plan to expand our logistical capabilities.

We intend to selectively expand our logistics capabilities. We have engaged project engineers to carry out works on the design and construction of the Elga rail branch line and of the Port Vanino complex. We plan to expand our own fleet of railcars, balancing transportation security and cost efficiencies. We plan to improve logistics in Europe through the establishment of the company Mecheltrans West, which will carry out transportation of Mechel s cargos via motor and rail transport, as well as work out optimal logistic schemes of cargo delivery.

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 economies of scale and continue to integrate recent acquisitions, in particular by implementing improvements in working practices and operational methods. We regularly evaluate the manner in which our subsidiaries source their raw material needs and transfer products within the 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.

Continuing to improve steel segment margins

Our ongoing plant modernization program is aimed at maintaining capacity at the present level, increasing efficiency and reducing the environmental impact of our operations. In line with this strategy, in 2007 through 2009 we completed modernization of production facilities at Mechel Targoviste, Southern Urals Nickel Plant, Chelyabinsk Metallurgical Plant and Urals Stampings Plant. In continuation of this strategy in 2010 and beyond, we aim to realize projects to construct the universal rail and structural steel mill at Chelyabinsk Metallurgical Plant and modernize the electric arc furnace at Izhstal. See Capital Investment Program.

Continuing expansion in high-growth markets

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. We further plan to expand production at our Bluestone operations to export coking coal to fast-growing South American markets including Brazil.

Further develop our domestic and European distribution capabilities

Our continued focus on the domestic Russian 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 in Bashkortostan. The geographical reach of our Mechel Service production and logistics facilities and sales network provides us with a strong platform to grow our sales. Before the financial crisis, Mechel-Service s operations in Europe were limited to Germany, Romania and Belgium. In 2009 Mechel-Service expanded its distribution network to Netherlands, Serbia, Bulgaria and Italy. We plan to further expand our Mechel-Service network in Europe.

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, nickel, chrome ore and limestone assets and coke, steel and ferroalloy production, with operations and assets in Russia, Romania, Bulgaria, Lithuania, Kazakhstan and the United States. With each of our acquisitions, we implement operational and management practices. We also devote the management, technological and logistical resources

Table of Contents

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 recent restructuring of our assets into separate mining, steel, ferroalloy and power segments, we have been implementing management, reporting and control systems for each respective subsidiary holding company, allowing for the preparation of consolidated financial statements for each of them.

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 If shares of our subsidiary holding companies are listed on a stock exchange, it could entail changes in such companies management and corporate governance that might affect our integrated business model.

Mining Segment

Our mining segment produces coking coal and steam coal concentrates, as well as iron ore, iron ore concentrate and limestone. Our coal operations consist of Southern Kuzbass Coal Company, Yakutugol and Bluestone, which together produced 10.2 million tonnes of coking coal and 7.5 million tonnes of steam coal in 2009. Our iron ore operations consist of Korshunov Mining Plant which produced 11.3 million tonnes of iron ore and 4.2 million tonnes of iron ore concentrate in 2009. Our limestone operations consist of Pugachev limestone quarry which produced 1.9 million tonnes of limestone in 2009.

Description of key products

Coking coal and coking coal concentrates. Coking coal is washed, low-phosphorous bituminous coal designated for further processing into coke in coking furnaces, which in turn is used in the blast furnace in the production of pig iron, a precursor of steel in integrated steel mills. Coking coals have high plasticity, meaning that they are amenable to being softened, liquefied and re-solidified into hard and porous lumps when heated in the absence of air. From our Southern Kuzbass Coal Company and Yakutugol we offer coking coal of marks OS (meager and caking), KS (coking and caking), KS (blend), KO (coking and meager) and K9 (coking). We process coking coal into coking coal concentrate to reduce ash content. We offer coking coal concentrate of marks OS (meager and caking), KO (coking and meager), KS (coking and caking) and K9 (coking). Our West Virginia-based Bluestone subsidiaries produce low, medium and high volatility hard coking coal. Coking coals can be mixed in different proportions to provide blends with the best characteristics for any specific customer. Blending takes place directly in port when loading to a vessel, without any additional washing at processing plants. This approach saves money and provides a competitive advantage over competitors with higher processing costs.

Steam coal and steam coal concentrates. Steam coal has properties that make it suitable for use in thermal applications, including electric power generation. From our Southern Kuzbass Coal Company we offer steam coal and steam coal concentrate of marks T (lean) and A (anthracite) in various grain-size classes, GZhO (gas, fat and meager) and TR (lean and run-of-mine). We also offer steam coal from Yakutugol of marks 3SS (weakly to non-caking), K6 (coking and oxidized), D (long-flame) and B2 (brown category 2). Our Bluestone subsidiaries produce medium and high volatility bituminous steam coal.

Other coal products. From our Southern Kuzbass Coal Company we also offer our customers middlings and anthracite concentrates of various grades.

Iron ore concentrate. From our Korshunov Mining Plant we offer iron ore concentrate with a standard iron weight fraction of 62%.

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,

Table of Contents

depending upon the amount of impurities in the coal, the coal is processed in a washing plant, where it is crushed and impurities are removed by gravity methods. Coking coal concentrate is then transported to steel plants for conversion to coke for use in pig iron smelting. Steam coal is shipped to power utilities which use it in furnaces for steam generation to produce electricity. Among the key advantages of our mining business is the high quality of our coking coal, the low level of volatile matter in our steam coal and our modern coal washing facilities in Russia, primarily built during the 1970s and 1980s, including facilities built as recently as 2001-2002. 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. In 2009, the Bluestone preparation plants processed all of the washable raw coal we produced in the Bluestone complexes. 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. All three of our iron ore mines are conventional open pit operations. 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 62.9% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the concentrating 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.

Limestone. Our limestone mining operation uses conventional open pit mining technology. Ore is drilled and blasted, then loaded with electric shovels into haul trucks. Relatively minor amounts of waste are hauled to external dumps. The ore is hauled to stockpiles located adjacent to the crushing and screening plant. Ore is crushed, screened and segregated by size fraction. The crushed limestone is separated into three product categories for sale: 0-20 millimeters, 20-40 millimeters and 40-80 millimeters.

Coal production

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. The earliest production at our Kuznetsky basin mines was in 1953, and 1979 in our Sakha Republic mines. The table below summarizes our coal production by mine and type of coal for the periods indicated.

Table of Contents

Mine[1]	2009 Tonnes	2009 % of Production	2008 Tonnes	2008 % of Production	2007 Tonnes	2007 % of Production
			(In thousands of tonnes)[2]			
Coking Coal						
Sibirginsk Open Pit	1,446	14.1%	2,522	16.6%	2,181	20.9%
Tomusinsk Open Pit	1,337	13.1%	1,952	12.9%	2,385	22.9%
Olzherassk Open Pit	505	4.9%	614	4.1%	880	8.4%
Lenin Underground[3]	1,253	12.2%	1,130	7.5%	2,077	20.0%
Sibirginsk Underground	408	4%	876	5.8%	1,188	11.4%
Nerungrinsk Open Pit[4]	3,020	29.5%	8,053	53.1%	1,708	16.4%
Keystone Mining Complexes[4]	1,066	10.4%				
Justice Energy Mining Complex[4]	637	6.2%				
Dynamic Energy Mining Complex[4]	571	5.6%				
Total Coking Coal	10,243	100%	15,147	100%	10,419	100%
Steam Coal						
Krasnogorsk Open Pit	2,867	38.0%	5,525	49.1%	5,630	52.2%
Sibirginsk Open Pit	714	9.5%	797	7.1%	1,469	13.7%
Olzherassk Open Pit	55	0.7%	525	4.7%	868	8.1%
Tomusinsk Open Pit	61	0.8%	99	0.9%	36	0.3%
Olzherassk Underground	917	12.2%	836	7.4%	1,783	16.5%
Nerungrinsky Open Pit[4]	2,205	29.3%	2,874	25.5%	827	7.7%
Kangalassk Open Pit[4]	199	2.6%	166	1.5%	35	0.3%
Dzhebariki-Khaya Underground[4]	377	5.0%	423	3.8%	127	1.2%
Keystone Mining Complexes[4]	6	0.1%				
Justice Energy Mining Complex[4]	12	0.1%				
Dynamic Energy Mining Complex[4]	126	1.7%				
Total Steam Coal	7,539	100%	11,245	100%	10,775	100%
Total Coal	17,782		26,392		21,194	
% Coking Coal		57.6%		57.4%		49.2%
% Steam Coal		42.4%		42.6%		50.8%

(1) Underground denotes an underground mine: Open Pit denotes a surface mine.

(2) Volumes are reported on a wet basis.

(3) Production at the Lenin underground mine was negatively impacted in 2008 because of accidents: on May 30, 2008 there was a cave-in (suspension of operation for 17 calendar days) and on July 29, 2008 there was a methane flash (suspension of operation for 67 calendar days). Both accidents involved multiple casualties.

(4) Includes only post-acquisition production volumes.

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

Our coking coal concentrate production amounted to 7.4 million tonnes in 2009 and 11.0 million tonnes in 2008.

Table of Contents

Russian Coal Mines

All of the Southern Kuzbass Coal Company mines are located in the southeast portion of the Kuznetsky Basin in the Kemerovo region, Russia. Southern Kuzbass Coal Company operations are located around Mezdurechensk with the exception of Erunakovsk, which is located northeast of Novokuznetsk. Each of the Southern Kuzbass Coal Company mines, with the exception of Erunakovsk, have railway spurs connected to the Russian rail system, which is controlled by Russian Railways.

Nerungrinsk Open Pit is located in the southern part of the Sakha Republic in eastern Siberia, south of the capital of Yakutsk near the town of Nerungri. Nerungrinsk Open Pit has a railway spur connected to the Russian rail system, which is controlled by Russian Railways.

The Elga project is located in the Sakha Republic and lies in the South Yakutsk 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.

The table below sets forth certain information regarding the subsoil licenses used by our Russian coal mines.

line[1]	License Area	License-Holding Subsidiary	License Expiry Date	Status[2]	Area (sq. km)	Year Product Commer
rasnogorsk Open Pit	Tomsk, Sibirginsk	Southern Kuzbass Coal Company OAO	Dec 2013	In production	22.4	1954
rasnogorsk Open Pit	Sorokinsk, Tomsk, Sibirginsk	Southern Kuzbass Coal Company OAO	Nov 2025	In production	2.8	2007
enin Underground	Olzherassk	Southern Kuzbass Coal Company OAO	Nov 2013	In production	10.0	1953
enin Underground (Usinsk nderground)	Olzherassk	Southern Kuzbass Coal Company OAO	Dec 2014	In development[3]	3.6	1965
lzherassk Open Pit	Raspadsk, Berezovsk, Olzherassk	Southern Kuzbass Coal Company OAO	Jan 2014	In production	9.3	1980
lzherassk Open Pit	Raspadsk	Southern Kuzbass Coal Company OAO	Dec 2024	In production	3.5	2007
lzherassk Open Pit[4]	Berezovsk-2, Berezovsk, Olzherassk	Southern Kuzbass Coal Company OAO	Dec 2024	In production	4.8	2007
ew-Olzherassk Underground ormerly Invest-Coal)	Raspadsk	Southern Kuzbass Coal Company OAO	Dec 2021	In production	1.2	2006
ew-Olzherassk Underground	Olzherassk-2, Raspadsk		Jan 2030	In development	0.03	2015

		Southern Kuzbass Coal Company OAO				
ew-Olzherassk Underground[4]		Southern Kuzbass Coal Company OAO	Nov 2025	In development		
	Razvedochny, Raspadsk				14.6	n/a
birginsk Underground		Southern Kuzbass Coal Company OAO	Dec 2024	In production		
	Sibirginsk, Tomsk				5.9	2002
birginsk Open Pit		Southern Kuzbass Coal Company OAO	Jan 2014	In production		
	Sibirginsk, Kureinsk, Uregolsk				17.7	1973
omusinsk Open Pit		Tomusinsk Open Pit Mine OAO	Dec 2012	In production		
	Tomsk				6.7	1959
runakovsk-1 Underground		Southern Kuzbass Coal Company OAO	Jun 2025	In development[3]		
	Erunakovsk-1, Erunakovsk				8.4	n/a
runakovsk-3 Underground		Southern Kuzbass Coal Company OAO	Jun 2025	In development[3]		
	Erunakovsk-3, Erunakovsk				7.1	n/a
lzherassk Underground		Southern Kuzbass Coal Company OAO	Nov 2025	In development[3]		
	Olzherassk				19.2	n/a
erungrinsk Open Pit	Nerungrinsk	Yakutugol OAO	Dec 2014	In production	15.3	1979
angalassk Open Pit		Kangalassk Open Pit Mine OAO[5][6]	Dec 2014	In production[3]		
	Kangalassk				7.7	1962
zhebariki-Khaya Underground		Dzhebariki-Khaya Mine OAO[5][6]	Dec 2013	In production[3]		
	Dzhebariki-Khaya				14.8	1972
erungrinsky Open Pit	Piatimetrovy coal seam, Promezhutochny	Yakutugol OAO	Dec 2025	In development[3]	30.0	n/a
lga Open Pit	Elga	Yakutugol OAO	May 2020	In development	144.1	n/a

(1) Underground denotes an underground mine. Open Pit denotes a surface mine.

(2) In production refers to sites that are currently producing coal. In development refers to sites where preliminary work is being carried out in accordance with the terms of the relevant subsoil license, such as preparation and approval of the geological survey project (for the Olzherassk license area), geological

Table of Contents

surveys (for the Olzherassk, Razvedochny, Erunakovsk-3, Piatimetrovy coal seam and Promezhutochny license areas), preparation and approval of construction project documentation (for the Elga license area) and construction (for the Erunakovsk-1 and Elga license areas).

(3) Not included in our mineral reserves.

(4) Deposits are partially included in our reserves, as SEC standards for reserve estimates allow inclusion in reserves of only the mineral deposits that can be extracted with economic benefits during the license period.

(5) In process of re-registration due to merger of the previous license holder into this company.

(6) Merged into Yakutugol as of March 31, 2010. Their licenses are expected to be re-issued to Yakutugol.

In October 2007, we acquired 75% less one share of Yakutugol, a coal producer located in eastern Siberia, in the Sakha Republic, increasing our stake to 100%. Yakutugol owns the Kangalassk and Nerungrinsk open pit mines, the Dzhebariki-Khaya underground mine and a coal license for the Piatimetrovy coal seam and the Promezhutochny license area. Yakutugol extracts predominantly coking coal, as well as steam coal. The Nerungrinsk mine produces high-quality coking and steam coal. The Kangalassk mine produces steam coal that is sold as fuel for power plants in the Sakha Republic. The Dzhebariki-Khaya mine produces steam coal, most of which is sold to the state housing and municipal services administration. Yakutugol sells most of its output to the Asian Pacific region, primarily to Japan, South Korea, Taiwan and China, mostly pursuant to annual contracts.

Together with our acquisition of Yakutugol, we also acquired 68.86% of the shares of Elgaugol, which at the time of the acquisition held the license to the undeveloped Elga coal deposit in the Sakha Republic. After our acquisition of Elgaugol, the Elga mining license was transferred to Yakutugol effective as of the end of the first quarter of 2008. According to the license conditions, we are required to meet certain operational milestones: (1) completing the legal permits for development of the Elga coal deposit by June 2009 (which is currently pending the final approval by the state authorities); (2) commencing construction of the mining plant in November 2009 (which has been approved for extension by state authorities); (3) completing construction of the mining plant (including water supply) by October 30, 2010 and commencing coal production by November 30, 2010; (4) reaching an estimated annual coal production of 9.0 million tonnes in July 2013; and (5) reaching targeted annual coal production of 18 million tonnes by July 2018. In addition, we undertook the obligation to build a rail branch line of approximately 315 kilometers in length, from the Ulak station on the Baikal-Amur Mainline up to the Elga coal deposit by September 30, 2010. See Item 5. Operating and Financial Review and Prospects Contractual Obligations and Commercial Commitments. We will operate this rail branch line as a private railway. However, according to Russian law, once we complete the railroad, we will have to share excess capacity with third parties. We do not expect to have excess capacity at the rail road.

On March 25, 2008, our subsidiary Yakutugol entered into a turn-key contract with Transstroy ZAO Engineering Corporation (**Transstroy**). Under this contract Transstroy undertakes to perform engineering survey works, handle the permitting process and design and build a rail branch line to the Elga coal deposit from the Baikal-Amur Mainline. Yakutugol s obligation is to ensure timely payment, including advances, and build a temporary access road. In September 2009, due to failure to meet certain construction deadlines, we appointed our subsidiary Metallurgshakhtspetsstroy as the general contractor for the rail road construction instead of Transstroy and formed Mechel-Customer United Directorate OOO to supervise the construction process and obtain required permits. These measures allowed us to advance the construction process and reduce costs of construction works. Pursuant to the agreements currently in effect, in November 2010 we plan to commence temporary transportation on the rail branch line until the 124th kilometer and to complete construction of an access road to the Elga deposit. We plan to complete the construction of the rail road to the Elga coal deposit and to open cargo transportation by December 30, 2011.

In 1994 Sibirginsk Open Pit Mine (currently a branch of Southern Kuzbass Coal Company) received a coal license to develop the mineral deposits of the Uregolsky 1-2 area. Approximately 1.1 million tonnes of coal have been mined by us since that date at the mine site in the license area. Due to what we believe was a technical error made when the license was originally issued, there is an uncertainty as to whether the Uregolsk license area includes a part of the mine site with 37 million tonnes of coal deposits (the **New Uregolsk**

Table of Contents

license area). Applicable Russian regulations lack a procedure for correcting license boundaries in the event of an error, and as recently as 2006, 2007 and 2008, we carried out mining activities on the New Uregolsk license area in coordination with, and with the knowledge of, Rostekhnadzor. Furthermore, Southern Kuzbass Coal Company participated in an auction aimed at resolving the title to the New Uregolsk license area. The auction was concluded on June 26, 2008. Southern Kuzbass Coal Company submitted its bids against competing bidders until it believed that the higher bidder s price was not economically justified in light of the estimated reserves in the license area. The final price was significantly higher than Southern Kuzbass Coal Company s last bid. Meanwhile, in May 2008, the Kemerovo region prosecutor s office opened a criminal case on the basis of Southern Kuzbass Coal Company s alleged unlawful usage of the mineral deposits on the New Uregolsk license area. However, the decision of the Zavodskoy district court in Kemerovo, the Kemerovo region, dated September 15, 2008, invalidated the order on institution of criminal proceedings and this decision was not appealed. For more information see Item 8. Financial Information Litigation New Uregolsk license area. Currently, no mining activity is conducted in the New Uregolsk license area. We believe that the coal mining at the New Uregolsk license area was in compliance with all applicable laws. Our subsidiary Southern Kuzbass Coal Company could face civil claims; however, we consider it unlikely that such claims will be made. Our mineral reserves and mineral deposits as set forth in this document as of December 31, 2009 do not include minerals within the New Uregolsk license area.

U.S. coal mines

Our U.S. coal mines are primarily located within the central portion of the Appalachian Plateau physiographic province, which is a broad upland that extends from Alabama through Pennsylvania. The properties are located in McDowell and Wyoming counties, West Virginia, and are underlain by carboniferous sediments of the Appalachian Basin. This region is operated by the Norfolk Southern railroad and is in close proximity to a large river route by which the coal is transported to the ports in Virginia and the Mexican Gulf ports. The Bluestone properties have four mining complexes, Keystone No. 1 and No. 2 (**Keystone Mining Complexes**), Justice Energy and Dynamic Energy, together comprising five open pit and five underground mines.

The Keystone Mining Complexes consists of 28,328 hectares, of which 4,975 hectares are owned, 7,910 hectares are leased on the basis of long term leases expiring from 2031 to 2032 and 15,443 hectares are leased in perpetuity. The mines produce premium quality low volatile coking coal. During the past several years, the Keystone No. 1 Complex has consisted of three open pit, two underground and one highwall mine, a preparation plant and a rail loadout facility served by the Norfolk Southern Railroad. We plan to construct a loadout facility at the Keystone Mining Complex No. 2 and to start production from the two new underground mines and an open pit mine in 2011.

The Justice Energy complex consists of 7,485 hectares, of which 602 hectares are owned, 1,334 hectares are leased on the basis of long term leases expiring from 2018 to 2019 and 5,549 hectares are leased in perpetuity. Production from the Justice Energy Complex was sold predominantly as medium-volatile coking coal. The complex includes a surface mine and an underground mine, a preparation plant and a rail loadout facility served by the Norfolk Southern Railroad. Additional development plans provide for three underground mines within the Justice Energy surface mine permit. These mines are also expected to produce premium medium volatile coking coal.

The Dynamic Energy Mining Complex utilizes approximately 2,980 hectares, which are leased in perpetuity. The complex includes a surface mine and an underground mine, a coal preparation plant and a rail loadout facility which is served by the Norfolk Southern Railroad. More underground mining operations are planned at the Coal Mountain property which is part of the Dynamic Energy Mining Complex. It is anticipated that these future mining operations will consist of no fewer than three continuous miner sections or two miner units with a single longwall unit. Production from these mines is expected to be premium high volatile coking coal.

In 2009 Bluestone produced 1.4 million tonnes of clean coal (i.e., coal ready to be sold).

Table of Contents

The table below sets forth certain information regarding the mining permits used by our U.S. coal mines.

Mining Complex	Mines and Mining Method[1]	Mining Permit Expiry Date	Status[2]	Year Production Commenced
Keystone Mining Complexes	3 Open Pit	2010 to 2014	In production	2001
	3 Underground	2013	2 In production 1 Idle	1998
Justice Energy Mining Complex	1 Open Pit	2012	In production	1982
	1 Underground	2014	Idle	2004
Dynamic Energy Mining Complex	1 Open Pit	2012	In production	1997
	1 Underground	2012	Idle	2007

(1) Underground denotes an underground mine; open pit denotes a surface mine.

(2) In production refers to sites that are currently producing coal. In development refers to sites where preliminary work is being carried out.

Coal washing plants

We operate five coal washing plants located near our coal mines in Southern Kuzbass and one coal washing plant located near Yakutugol. All of the coal feedstock enriched by our washing plants in 2009 (13.8 million tonnes) was supplied by our own mining operations. In 2009, the capacity of our washing plants in Russia accounted for 25.2% of the total domestic coking coal washing capacity in Russia by volume, according to Rosinformugol. Bluestone currently uses three washing plants: the washing plant at the Keystone Mining Complex (Keystone No. 1) which is owned by Bluestone; the washing plant at the Justice Energy Mining Complex (Red Fox Property) which is held by Bluestone pursuant to a long-term lease, and the washing plant at the Dynamic Energy Mining Complex (Coal Mountain Property) which is also held by Bluestone pursuant to a long-term lease. One more coal washing plant is under construction at the Keystone Mining Complex No. 2.

Investments in coal companies

We own 16.1% of Mezhdurechye OAO, a Russian coal producer whose production volume accounted for 5.5% of Russian coking coal output and 2.0% of Russian total coal output in 2009, according to the Central Dispatching Department.

Iron ore and concentrate production

Korshunov Mining Plant operates three iron ore mines, Korshunovsk, Rudnogorsk and Tatianinsk, as well as a concentrating plant located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of Bratsk in eastern Siberia. The Korshunovsk mine is located near the concentrating plant. The Rudnogorsk mine is located about 85 kilometers to the northwest of the concentrating plant. The Tatianinsk mine is located about 10 kilometers to the north of the concentrating plant. All three mines produce a magnetite ore (Fe_3O_4). All product is shipped by rail to domestic

customers or to seaports for export sales. We acquired Korshunov Mining Plant in 2003.

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

License Area	License Holder	License Expiry Date	Status	Area (sq. km)	Year Production Commenced
Korshunovsk	Korshunov Mining Plant	June 2014	In production	4.3	1965
Tatianinsk	Korshunov Mining Plant	June 2012	In production	1.3	1982
Rudnogorsk	Korshunov Mining Plant	June 2014	In production	5.1	1986
Krasnoyarovsk	Korshunov Mining Plant	July 2015	Feasibility study[(1)]	3.0	n/a

Table of Contents

(1) Not included in our mineral reserves and deposits.

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

	2009		2008		2007	
	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)
	(In thousands of tonnes)[1]					
Korshunovsk ore production	5,683	25.4%	5,702	26.3%	6,573	25.8%
Rudnogorsk ore production	5,605	31.5%	5,911	34.6%	5,754	35.6%
Tatianinsk ore production	1	28.7%	110	29.2%	468	29.9%
Total ore production	11,289	28.5%	11,724	30.5%	12,795	30.4%
Iron ore concentrate production	4,208	62.4%	4,700	62.2%	4,963	62.2%

(1) Volumes are reported on a wet basis.

Limestone production

The Pugachev 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 1952 to support Beloretsk Metallurgical Plant s steel-making facilities, which are currently closed. The Pugachev limestone quarry is owned by our Beloretsk Metallurgical Plant, which we acquired in 2002. 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 2009, approximately 95.8% of the limestone produced at Pugachev was used internally as auxiliary, with 68.5% shipped to Chelyabinsk Metallurgical Plant, 23.2% shipped to Southern Urals Nickel Plant, 0.7% to Beloretsk Metallurgical Plant, 3.4% to Izhstal, and approximately 4.2% sold to third parties. We are capable of internally sourcing 100% of the limestone requirements of our steel operations.

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

	2009	2008	2007
	(In thousands of tonnes)		
Limestone production	1,865	1,692	1,832

The decrease of limestone production volumes in 2009 relates to a decrease in limestone requirements from third-party customers.

Sales of mining products

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

Product	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
	(In thousands of tonnes[1])			**(% of total sales, including intra-group)**		
Coking coal concentrate[2]	4,848	8,360	6,018	67%	77%	62%
Steam coal[2]	8,867	8,543	7,230	91%	90%	96%
Iron ore concentrate	3,787	2,713	2,358	93%	58%	51%

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

(2) Includes only post-acquisition volumes of Yakutugol and Bluestone.

Table of Contents

The significant decrease in coking coal concentrate sales in 2009 against 2008 was due to poor demand in both the export and domestic markets, especially in the first half of 2009.

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

	2009		2008		2007	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Coking coal concentrate	538.3	34.8%	1,860.9	55.8%	622.9	45.4%
Domestic Sales	35.5%		49.7%		83.7%	
Export	64.5%		50.3%		16.3%	
Steam Coal	662.5	42.8%	925.0	27.8%	436.3	31.8%
Domestic Sales	15.3%		11.4%		12.5%	
Export	84.7%		88.6%		87.5%	
Iron ore concentrate	233.0	15.0%	339.4	10.2%	213.6	15.6%
Domestic Sales	33.0%		23.5%		67.7%	
Export	67.0%		76.5%		32.3%	
Other[(1)]	115.1	7.4%	208.1	6.2%	99.7	7.2%
Total	1,548.9	100%	3,333.4	100%	1,372.5	100%
Domestic Sales	30.7%		39.4%		59.8%	
Export	69.3%		60.6%		40.2%	

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

Marketing and distribution

In 2009, our mining products were marketed domestically in Russia primarily through Mechel Trading House and internationally through Mechel Trading in Switzerland. 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)]	**2009**	**2008**	**2007**
Russia	28.9%	39.5%	59.5%
Other CIS	1.0%	9.1%	13.3%
Europe	18.4%	14.2%	10.8%
Asia	40.6%	32.1%	12.9%

Middle East	5.0%	2.5%	3.5%
Other regions	6.1%	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 distributor customers resell and, in some cases, further export our products.

Table of Contents

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 29.5% of our mining segment sales.

Customer	% of Total Mining Segment Sales	Product	% of Total Products Sales
EvrazHolding	9.6%	Iron ore concentrate	31.8%
		Coking coal concentrate	13.9%
		Steam coal	0.0%
ArcelorMittal	6.8%	Coking coal concentrate	7.7%
		Steam coal	9.6%
Suifenhe Herun Economic and Trade Co., LTD	5.0%	Iron ore concentrate	33.4%
		Coking coal concentrate	0.1%
Far Eastern Generating Company OAO	4.2%	Steam coal	4.7%
		Other	41.6%
JFE Steel Corporation	4.1%	Coking coal concentrate	11.0%
		Steam coal	0.6%

Sales by Russian subsidiaries

Domestic sales

We generally do not involve intermediaries in the domestic distribution of our mining products. Our domestic coking and steam coal and iron ore customers are generally located in large industrial areas and have had long-standing relationships with us.

We ship our coking coal concentrate from our coal washing facilities, located near our coal mines and pits, by railway directly to our customers, including steel producers. Our largest domestic customer for our coking coal concentrate was EvrazHolding, accounting for 13.9% of our total coking coal concentrate sales and 9.6% of our total mining segment sales in 2009.

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 tonnes of coking coal, has filed a lawsuit in a Russian court seeking rescission of its contract. Metalltrade also has filed a lawsuit seeking termination of its five-year contract. See Item 8. Financial Information Litigation Commercial litigation.

In April 2010, following an initiative from the Russian government, the Saint-Petersburg International Mercantile Exchange held the first Russian coking coal concentrate exchange trading. Mechel Trading House participated in this trading. Steel mills and coking plants are expected to become the main coking coal concentrate consumers trading at the exchange.

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. Some of our steam coal is consumed within the group; for example, sales of steam coal and middlings (lower-quality coal) from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were $15.7 million in 2009. In total, 1.4 million tonnes of steam coal was consumed

Table of Contents

within the group. Far Eastern Generating Company OAO is our largest domestic customer of steam coal, accounting for 4.7% of our total steam coal sales and 4.2% of our total mining segment sales in 2009.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, EvrazHolding, accounted for 31.8% of our total iron ore concentrate sales and 9.6% of our total mining segment sales in 2009. We set our prices on a monthly basis.

Our subsidiary Mecheltrans is a railway freight and forwarding company, which owns its own rail rolling stock, consisting of 409 open cars and 213 pellet cars, leases 279 open cars and has 2,980 open cars under equipment finance leases. Mecheltrans transported domestically approximately 38.0 million tonnes of our cargo in 2009, approximately 70.5% of which was comprised of coal and iron ore.

Export sales

We export coking coal, steam coal concentrate, low bituminous and anthracite steam coal, and iron ore concentrate.

In the year ended December 31, 2009, the largest foreign customer of our mining segment was ArcelorMittal, accounting for 6.8% of our total mining segment sales. ArcelorMittal purchases consisted of coking coal concentrate and steam coal.

We were Russia s third largest exporter of coking coal concentrate in 2009, according to RasMin. Our exports of coking coal concentrate primarily go to China, Japan, South Korea and South Africa. In 2009, JFE Steel Corporation was our largest foreign customer of coking coal concentrate, accounting for 11.0% of our total coking coal concentrate sales and 4.1% of our total mining segment sales. Shipments are made by rail to sea ports and further by sea.

Our exports of steam coal are primarily to China, Japan, Bulgaria, Turkey, Belgium and Israel, which together accounted for 57.9% of our total steam coal sales and 24.7% of our total mining segment sales in 2009. Our largest foreign customers of steam coal were Rizhao Port (Group) Logistics Co., Ltd. in China, National Coal Supply Corp., Ltd. in Israel and Toplofikatsia Rousse in Bulgaria. Steam coal is shipped to customers from our warehouses by railway and, in some cases, further by ship from Russian and Ukrainian ports.

Our Port Posiet processed 3.35 million tonnes of coal in 2009. From Port Posiet we ship primarily our steam coal and coking coal concentrate to Japan, Korea and China. The port s current capacity is approximately 3.0 million tonnes of annual cargo-handling throughput and 200,000-220,000 tonnes of warehousing capacity depending on coal type. 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 2009, we used annual contracts for export sales of coking and steam coal. Coal not shipped under annual contracts was sold on the spot market.

We also sold iron ore concentrate to customers in China during 2009, which accounted for 67.0% of our total iron ore concentrate sales and 10.1% of our total mining segment sales in 2009. We ship iron ore concentrate to China by rail and by sea.

Sales by U.S. subsidiaries

Since its acquisition, the Bluestone mining business sold 1.2 million tonnes of coking and steam coal in 2009, 69% of which was sold to the export market. Most of the Bluestone export sales, or 30% of the total sales, were shipped to South East Asia. 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. All production is shipped via the Norfolk Southern Railroad, so our Bluestone operations are dependent on the capacity of and our relationship with Norfolk Southern Railroad. These shipments either go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2009, all Bluestone exports went through the port of Norfolk, Virginia.

Table of Contents

Market share and competition

Coal

According to Rosinformugol, in 2009 the Russian coal mining industry was represented by 213 companies, which operated 94 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 Rosinformugol s and the Central Dispatching Department s data, the ten largest coal mining companies in Russia produced 78.5% of the overall coal production volume in 2009.

According to data from the Central Dispatching Department, in 2009, we were the fourth largest coking coal producer in Russia, with a 13.0% share of total production by volume, and we had a 5.1% market share with respect to overall Russian coal production by volume. This is a lower rank than we held in previous years, and is the result of a sharp decrease in our coking coal production in the first half of 2009. However, in the second half of 2009, we improved our position and became the second largest coking coal producer for that six month period, after Raspadskaya OAO. We also controlled 25.2% of the coking coal washing facilities in Russia by capacity at the end of 2009, according to Rosinformugol. The following table lists the main Russian coking coal producers in 2009, 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
Raspadskaya OAO	Raspadskaya ZAO	10,548.0	17.3%
Evraz Group S.A.	Yuzhkuzbassugol Coal Company ZAO	10,005.1	16.4%
Sibuglemet Holding	Polusukhinskaya Mine OAO	2,770.5	4.5%
	Mezhdurechye OAO[(1)]	3,333.1	5.5%
	Antonovskaya Mine ZAO	1,024.1	1.7%
	Bolshevik Mine OAO	988.3	1.6%
	Sibuglemet Total	8,116.0	13.3%
Mechel OAO	Southern Kuzbass Coal Company OAO	4,949.1	8.1%
	Yakutugol Holding Company OAO	3,019.6	4.9%
	Mechel Total	7,968.7	13.0%
Severstal OAO	Vorkutaugol OAO	6,033.3	9.9%
Belon Group	PO Sibir-Ugol OAO	3,371.0	5.5%
SUEK OAO	SUEK OAO (Kemerovo region)	3,015.7	4.9%
Kuzbassrazrezugol Coal Company OAO	Kuzbassrazrezugol Coal Company OAO	2,688.9	4.4%
Other		9,334.8	15.3%
Total		61,081.5	100%

Source: Central Dispatching Department.

(1) We own 16.1% of Mezhdurechye OAO.

Table of Contents

According to data from the Central Dispatching Department, in 2009, we were the fourth largest steam coal producer in Russia in terms of volume, with a 3.1% share of total production. The following table lists the main Russian steam coal producers in 2009, 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 oblast)	28,989.8	12.1%
	SUEK OAO (Krasnoyarsk krai)	28,066.5	11.7%
	Vostsibugol OOO (Irkutskaya oblast)	10,579.1	4.4%
	SUEK OAO (Republic of Khakasia)	8,520.3	3.6%
	SUEK OAO (Tugnuiskii razrez)	5,856.8	2.4%
	SUEK OAO (Zabaikalsky krai)	5,444.1	2.3%
	Primorskugol OAO	5,214.9	2.2%
	Urgalugol OAO	2,712.3	1.1%
	SUEK Total	95,383.8	39.8%
Kuzbassrazrezugol Coal Company OAO	Kuzbassrazrezugol Coal Company OAO	43,408.1	18.1%
SDS-Ugol Holding Company OAO	Chernigovets ZAO	4,446.8	1.9%
	Salek ZAO	3,315.5	1.4%
	Yuzhnaya Shaft Mine OAO	2,102.5	0.9%
	Kiselevsky Open-Pit Mine OAO	2,002.8	0.8%
	Kiselevskaya Shaft Mine OOO	749.6	0.3%
	UK Prokopyevskugol OOO	241.0	0.1%
	Itatugol OOO	100.5	0.0%
	SDS-Ugol Total	12,958.7	5.4%
Mechel OAO	Southern Kuzbass Coal Company OAO	4,613.0	1.9%
	Yakutugol Holding Company OAO	2,781.9	1.2%
	Mechel Total	7,394.9	3.1%
EvrazGroup	Yuzhkuzbassugol Coal Company ZAO	4,074.0	1.7%
LUTEK OAO	LUTEK OAO	4,566.9	1.9%
Zarechnaya Shaft Mine OAO	Zarechnaya Shaft Mine OAO	5,190.1	2.2%
Kuzbasskaya TK OAO	Kuzbasskaya TK OAO	6,150.0	2.6%
Primorskugol OAO	Primorskugol OAO	5,214.9	2.2%
Other		55,219.4	23.0%
Total		239,560.8	100%

Source: Central Dispatching Department.

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.

Table of Contents

According to AME, we were among the world 15 largest coking coal exporters in 2009. The following table lists the major world metallurgical coal (i.e. coking coal and coal for pulverized, or finely crushed, coal injection (PCI)) exporters and their shares of the total metallurgical coal international trade in 2009.

Company	Metallurgical Coal Export (Thousands of Tonnes)	% of Total Internationally Traded Metallurgical Coal
BHP Billiton Limited	28.0	13.0%
Mitsubishi Corporation	22.7	10.6%
Teck Resources Limited	17.0	7.9%
Anglo American plc	13.4	6.2%
Rio Tinto Group	10.4	4.8%
Xstrata plc	8.8	4.1%
Wesfarmers Limited	6.6	3.1%
Peabody Energy Corporation	6.2	2.9%
Mitsui & Co Ltd.	5.3	2.5%
Walter Energy Inc.	5.1	2.4%
Macarthur Coal Limited	4.1	1.9%
Mechel OAO	3.8	1.8%
Marubeni Corporation	3.5	1.6%
Other	79.8	37.2%
Total Metallurgical Coal Exports	214.7	100.0%

Source: AME

According to the U.S. Department of Energy/Energy Information Administration, the total production of coal in the United States in 2009 was 973.2 million tonnes. Bluestone s share of total production was 0.14%.

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 Rudprom, the market is dominated by relatively few producers, with the top three mining groups being Metalloinvest, the Evraz Group and Severstal-Resurs, representing over 70.4% of total production of iron ore concentrate. We were sixth in production volume in 2009 with 4.2 million tonnes of iron ore concentrate, representing 4.7% of total production of iron ore concentrate in Russia.

Mineral reserves (coal, iron ore and limestone)

Our 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 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 mineral reserves has been prepared by our internal mining engineers as of December 31, 2009. 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. For our Russian properties our 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. We report information on our mineralized material on an annual basis to the Russian

Table of Contents

State Committee on Reserves (**GKZ**) according to the approved Russian classifications of A, B and C1. In general, provided that Industry Guide 7 s economic criteria are met, A+B is equivalent to proven and C1 is equivalent to probable. However, when preparing year-by-year production schedules, due to our practice of preparing our Russian mineralization reports manually and the lack of computerized data and modeling, we do not break out future production by these categories when scheduling and we are not required to do so by the GKZ. These categories are defined for the mine plan as a whole. As these annual production schedules are the basis for estimating our reserves under Industry Guide 7, we are not able to segregate our Industry Guide 7 reserves into proven and probable categories. Although we are in the process of digitizing our data and implementing the use of computerized models and hope to be able to prepare production schedules by category in the future (and hence segregate our Industry Guide 7 reserves by proven and probable categories), currently it would not be commercially feasible for us to do so.

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. Additionally, to meet the legally viable requirement of the SEC, only material that is scheduled to be mined during the license period of existing subsoil licenses based on planned production was included in reserves.

Our Russian subsoil licenses expire on dates falling in 2012 through 2033. Our most significant licenses expire between 2012 and 2024. These subsoil licenses, however, may be terminated prior to, or may not be extended at, the time of their expiration. However, we believe that they may be extended at our initiative without substantial cost. We intend to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates. 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 renew 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 Russian Regulation Subsoil licensing. The Bluestone companies mining permits expire in 2010 through 2014.

In addition to our mineral reserves, we have mineral deposits in Russia. Our mineral deposits are similar to our mineral reserves in all respects, except that the deposit is either: (1) contained within the license boundary but is scheduled to be extracted beyond the license period; or (2) is adjacent to but not contained within the license boundary. In both such cases, we intend to obtain the legal right to extract such deposit in the future. Mineral deposits may never be converted into mineral reserves if licenses are not renewed and/or extraction of such mineral deposits does not become economically viable in the future.

The table below summarizes our reserves (including the reserves associated with our ferroalloys segment) as of December 31, 2009.

	Coal					
Summary	**Coking**	**Steam**	**Iron Ore**	**Nickel Ore[1]**	**Chrome Ore[1]**	**Limestone**
				(In millions of tonnes)		
Reserves	341.2	181.5	64.1	7.7	18.3	8.2
Grade (%)			27%	1%	42%	55%
Deposits	702.9	297.8	109.6	51.0		6.2
Grade (%)			28%	1%		55%

(1) See Ferroalloys Segment Mineral reserves (ferroalloys) for detail on the mineral reserves and deposits of our ferroalloys segment.

Coal

As of December 31, 2009, we had coal reserves (proven and probable) totaling 522.7 million tonnes, of which approximately 65% was coking coal. The table below summarizes coal reserves by mine.

Table of Contents

Coal Reserves[1]	Coking Coal[2]	Steam Coal[2]	Heating Value[3][4]	% Sulfur[4]
		(In millions of tonnes)[5][6][7]		
Krasnogorsk Open Pit		103.8	5,700	0.40
Tomusinsk Open Pit	4.6	1.4	8,350	0.30
Olzherassk Open Pit	12.0	15.8	8,171	0.25
New-Olzherassk Underground		23.4	7,900	0.30
Sibirginsk Open Pit	9.0	4.3	8,449	0.30
Sibirginsk Underground	35.7		8,531	0.25
Lenin Underground	6.8		8,467	0.29
Nerungrinsk Open Pit	47.0	5.7	5,300	0.30
Elga	66.8	23.9		
Keystone Mining Complex[8]	130.0	1.4		
Dynamic Energy Mining Complex[9]	19.9	1.2		
Justice Energy Mining Complex[10]	9.4	0.6		
Total	341.2	181.5		
% of Total	65.3%	34.7%		

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) We own 95.8% of Southern Kuzbass Coal Company mines, 74.5% of Tomusinsk Open Pit Mine, 100% of Yakutugol mine, 100% of Elga mine and 100% of Bluestone mines. Reserves and deposits are presented for the mines on an assumed 100% ownership basis.

(3) Heating values (in kcal/kg) are reported on a moisture- and ash-free basis.

(4) The figures represent the average for the relevant licensed period.

(5) Volumes are reported on a wet in-place basis.

(6) The average coal recovery factors for raw coal sent to Siberian Central Processing Plant, Kuzbass Central Processing Plant, Tomusinsk Processing Mills, Krasnogorsk Processing Plant and Nerungrinsk Processing Plant are projected to be 81.5%, 81%, 67%, 60-66% and 67%, respectively. The average coal recovery factor for raw coal mined at Elga mine is projected to be 70%.

(7) In estimating our reserves located in Russia we use coal prices which are in line with 3-year average prices and currency conversions are carried out at average official exchange rates of the Central Bank of Russia. Average prices used were:

Southern Kuzbass Coal Company: run-of-mine coking coal $38-45 per tonne; run-of-mine steam coal $18-37 per tonne.

Nerungrinsk Open Pit: run-of-mine coking coal $78 per tonne.

Elga: coking coal concentrate $180; steam coal concentrate $60 per tonne.

In estimating our Bluestone reserves we use prices in the range of $126-132 for coking coal and $61 for steam coal which are in line with 3-year average prices.

(8) Coal reserves of 131.4 million tonnes in total consist of 70.0 million tonnes of proven and 61.4 million tonnes of probable reserves.

(9) Coal reserves of 21.1 million tonnes in total consist of 11.5 million tonnes of proven and 9.6 million tonnes of probable reserves.

(10) Coal reserves of 10.0 million tonnes in total consist of 6.9 million tonnes of proven and 3.1 million tonnes of probable reserves.

Table of Contents

As of December 31, 2009, we had coal deposits totaling 1,001 million tonnes, of which approximately 70% was coking coal. The table below summarizes coal deposits by mine.

Coal Deposits	Coking Coal	Steam Coal	Heating Value[1][2]	% Sulfur[2]
		(In millions of tonnes)[3][4]		
Krasnogorsk Open Pit		101.5	5,771	0.40
Tomusinsk Open Pit	9.4	5.1	8,350	0.30
Olzherassk Open Pit	11.1	9.0	8,265	0.25
Sibirginsk Open Pit	19.0	10.1	8,466	0.30
Sibirginsk Underground	16.8		8,531	0.25
Lenin Underground	11.4		8,467	0.29
Nerungrinsk Open Pit	91.3	3.5	5,300	0.30
Elga	543.9	168.6	5,285	0.25
Total	702.9	297.8		
% of Total	70.2%	29.8%		

(1) Heating values (in kcal/kg) are reported on a moisture- and ash-free basis.

(2) The figures represent the average for the relevant unlicensed period.

(3) Estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(4) Tonnages are reported on a wet in-place basis.

Our Kangalassk Open Pit and Dzhebariki-Khaya Underground mining properties contain neither mineral reserves nor mineral deposits, as we have defined mineral deposits (see Mineral reserves (coal, iron ore and limestone) above). Although these are operating mines and the geological sampling and density requirements have been met, they fail to meet the economic criteria. Our Southern Kuzbass Coal Company subsidiary also has a number of coal mining licenses with which no mineral reserves or deposits are associated.

Elga, a coalfield for which our subsidiary Yakutugol holds a subsoil license, is now an undeveloped property in a remote area of Siberia. Elga contains large quantities of export-quality coking and steam coal. Since 1998 there have been several studies on Elga, including geology and resources, mine planning, railway construction and feasibility studies. We plan to mine Elga using open pit mining methods. In 2009, 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, concentrating plant) and sets the order of priority of construction and operation of the Elga open-pit coal mine. In 2009, the design institute NTC Geotechnology OOO developed a plan of initial mine block development for the three-year period from 2010 until 2012 that will allow us to commence coal mining in 2010. The plan was approved by the Central Commission for Development of the Federal Agency for Subsoil Use. In 2010, we will produce the plan for the first construction phase of Elga complex with annual production capacity of 9.0 million tonnes of coal.

There are a number of significant risk factors associated with the Elga project. These risks have the potential to impact the calculation of the Elga reserves by affecting the project s legal or economic viability. Key risks that have been identified include the following:

According to the terms of the subsoil license for the Elga coal deposit, we must construct a rail branch line from the Baikal-Amur Mainline to the coal deposits, approximately 315 kilometers in length, and this branch line must be operational by September 30, 2010. Previous detailed studies have estimated that it will take three to four years to construct such a branch line. The current construction schedule is very aggressive and it may not be achievable due to limited financing during the period from September 2008 to August 2009 because of the global financial crisis. If this schedule is not met, our subsoil license for Elga may be suspended or terminated. In order to be in compliance with the license deadlines, we have filed an application with the Ministry of Natural Resources and Ecology to amend the terms of the license and

Table of Contents

extend the deadlines as follows: (1) construction of the rail branch line to be completed by December 30, 2012, and (2) construction of the mining plant with annual coal production capacity of 9.0 million tonnes to be completed by December 30, 2014.

The viability of the Elga project is dependent upon the construction of the rail branch line referred to above. Construction is currently in process.

A detailed feasibility study was completed on the Elga project in 2005. Currently, a new engineering study is being prepared for the first construction phase of Elga complex which will, among other, specify project capital and operating costs which may change due to further evaluation of the project. Increases in capital and operating costs have the potential to make the Elga project uneconomical because of the project s sensitivity to these costs.

The Elga project is very sensitive to market prices for coal because of the high initial capital costs.

Insufficient capacity of ports in the Eastern part of Russia where Elga deposit is located may limit the distribution of coal mined at Elga deposit.

Iron ore

As of December 31, 2009, we had iron ore reserves (proven and probable) totaling 64.1 million tonnes at an average iron grade of 27.0%. The table below summarizes iron ore reserves by mine.

Iron Ore Reserves[1][2]	**Tonnes[3][4]**	**Grade (% Fe)[5]**
	(In millions of tonnes)	
Korshunovsk	32.0	24.6
Rudnogorsk	30.1	29.6
Tatianinsk	2.0	26.1
Total	64.1	27.0

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) In estimating our reserves we use an average price of $59 per tonne of iron ore concentrate and currency conversions are carried out at average official exchange rates of the Central Bank of Russia.

(3) Volumes are reported on a wet basis.

(4) We own 85.6% of Korshunov Mining Plant mines. Reserves are presented for the mines on an assumed 100% ownership basis.

(5) Metallurgical recovery is projected to be 70.2%.

As of December 31, 2009, we had iron ore deposits totaling 109.6 million tonnes at an average iron grade of 27.8%. The table below summarizes iron ore deposits by mine.

Iron Ore Deposits[1]	**Tonnes[2]**	**Grade (% Fe)[3]**
	(In millions of tonnes)	
Korshunovsk	38.0	24.6
Rudnogorsk	68.0	29.6
Tatianinsk	3.7	26.1
Total	109.6	27.8

(1) Includes adjustments for dilution and mine recovery, based on historical records.

(2) Volumes are reported on a wet basis.

(3) Metallurgical recovery is projected to be 70.2%.

Table of Contents

Limestone

As of December 31, 2009, we had limestone reserves (proven and probable) totaling 8.2 million tonnes at 55.2% calcium oxide.

Limestone Reserves[1][2][3]	Tonnes	Grade (% CaO)
	(In millions of tonnes)	
Pugachev	8.2	55.2

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) We own 91.4% of Beloretsk Metallurgical Plant which owns 100% of Pugachev Open Pit, the holder of the subsoil license for the Pugachev 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 $5.1 per tonne of commodity limestone which is in line with 3-year average price and currency conversions are carried out at average official exchange rates of the Central Bank of Russia.

As of December 31, 2009, we had limestone deposits totaling 6.2 million tonnes at 55.2% calcium oxide.

Limestone Deposits[1]	Tonnes	Grade (% CaO)
	(In millions of tonnes)	
Pugachev	6.2	55.2

(1) Includes adjustments for dilution and mine recovery, based on historical records.

Steel Segment

Our steel segment comprises production and sale of semi-finished steel products, carbon steel long products and specialty steel long products, carbon and stainless flat products, and value-added downstream 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 coal (steam and coking coal), iron ore and limestone, and our ferroalloys segment, which includes ferronickel, ferrochrome and ferrosilicon.

Our steel segment has production facilities in Russia, Lithuania and Romania. Our acquisition of Laminorul Plant represents further expansion of our production and marketing capacity into the European Union. The acquisition of Laminorul Plant allows us to optimize our existing production chain and maximize the efficiency of our intra-group sales structure, while at the same time reducing costs in our growing Romanian steel business. See Recent

Developments . Our total crude steel output was 6.1 million tonnes in 2007, 5.9 million tonnes in 2008 and 5.5 million tonnes in 2009.

Description of key products

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.

Coking products. Coking products are hydrocarbon products obtained as a byproduct of the production of coke. We produce coke 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 boiler fuel, food additives and pavement sealants. Naphthalene, a product of the distillation of coal tar, is best known as the active ingredient in mothballs. It is used by the chemical industry to produce chemical compounds used in synthetic dyes, solvents, plasticizers and other products.

Table of Contents

Pig iron. Pig iron is a high-carbon form of iron produced from smelting iron ore feed (sinter, pellets and other ore materials) in the blast furnace. Cold pig iron is brittle. 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. 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. Blooms are also part of the high-quality bar manufacturing process. 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 and on a continuous semifinishing mill. We offer our customers billets and blooms produced by Mechel Targoviste, Izhstal, Chelyabinsk Metallurgical Plant and Ductil Steel, 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 Mechel Campia Turzii, Mechel Targoviste and Ductil Steel in Romania.

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.

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 custom parts stamped from flat products. Forgings are specialty 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; bearings, gears and wheels; bars; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its Chelyabinsk branch. Izhstal and Mechel Targoviste also produce stampings and forgings.

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, Mechel Campia Turzii in Romania and Mechel Nemunas Co. Ltd. (**Mechel Nemunas**) in Lithuania. Our wide-ranging wire products line includes spring wire; barbed wire; welding electrodes; wire for bearing manufacturing; 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.

Table of Contents

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

	2009	2008	2007
	(In thousands of tonnes)		
Coke (6% moisture)	3,233	3,326	3,886
Coking Products	130	129	129
Pig Iron	3,805	3,500	3,686
Semi-Finished Steel Products, including:	1,913	1,687	1,705
Carbon and Low-Alloyed Semi-Finished Products	1,806	1,710	1,647
Long Steel Products, including:	3,099	3,348	3,040
Stainless Long Products	22	15	17
Alloyed Long Products	63	36	82
Rebar	1,536	1,535	1,637
Wire Rod	631	580	591
Low-Alloyed Engineering Steel	430	606	711
Flat Steel Products, including:	345	357	393
Stainless Flat Products	31	37	37
Carbon and Low-Alloyed Flat Products	313	320	356
Forgings, including:	49	72	80
Stainless Forgings	2	1	2
Alloyed Forgings	30	29	51
Carbon and Low-Alloyed Forgings	16	41	26
Forged Alloys			1
Stampings	61	86	95
Wire Products, including:	627	719	689
Wire	487	556	536
Ropes	41	52	57

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.

In BOF steel manufacturing, the principal raw material used to produce steel is iron ore and the metal is chemically smelted from the ore. Mined iron ore is crushed, concentrated and mixed with limestone and a small amount of coke. The mixture is sintered, crushed and then constantly fed, in alternating layers with more coke, into a blast furnace. At the same time natural gas and oxygen are injected into the furnace to reduce the iron, melt the mixture and obtain pig iron, an intermediate product with an iron content of 94-97%, a carbon content of 2-4% and 1-2% non-ferrous elements. Liquid pig iron is processed further in a BOF to produce molten steel with less than 2% carbon content. The molten steel, depending on the products in which it will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, and titanium ferroalloys and other components to give it special properties. Approximately 67% of the world s steel output is made in a BOF, most typically in large-scale plants that must produce 3-4 million tonnes per year to be economically efficient.

In EAF steel manufacturing, steel is generally produced from remelted scrap. Heat to melt the scrap is supplied from high-voltage electricity that arcs within the furnace between graphite electrodes and the scrap. 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 31% of world steel output is made in EAFs.

Table of Contents

Steel products are broadly subdivided into two categories flat and long products. Flat products are hot-rolled or cold-rolled coils and/or coated 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 raw 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 are ISO 9001:2000 certified. Mechel Campia Turzii, Chelyabinsk Metallurgical Plant, Mechel Targoviste, Urals Stampings Plant and Izhstal are ISO 9001:2008 certified. Wire-drawing workshop No. 3 of Mechel Campia Turzii is ISO 14001 certified.

Chelyabinsk Metallurgical Plant

Chelyabinsk Metallurgical Plant produces semi-finished products for further milling in Russia or our internal needs. Chelyabinsk Metallurgical Plant is an integrated coke and coke gas, sintering production, blast furnace, 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, hardware and ball-bearing industries. We acquired Chelyabinsk Metallurgical Plant in 2001.

The plant sources all of its coking coal needs from Southern Kuzbass Coal Company and from Yakutugol and most of its iron ore needs from our Korshunov Mining Plant and a majority of its nickel needs from our Southern Urals Nickel Plant. In 2006, coke production and specialty steel production were separated from Chelyabinsk Metallurgical Plant into separate entities which are wholly owned subsidiaries of Chelyabinsk Metallurgical Plant. In August 2007, ownership of Chelyabinsk Metallurgical Plant s specialty steel operations was transferred to the Chelyabinsk branch of Urals Stampings Plant, though for presentation purposes Chelyabinsk Metallurgical Plant s specialty steel operations are presented in this section.

Chelyabinsk Metallurgical Plant s (including the Chelyabinsk branch of Urals Stampings Plant) principal production lines include a BOF workshop equipped with three converters; three EAF workshops equipped with electric arc ovens, including two large ovens of 100 and 125 tonnes, respectively; small-capacity direct- and alternating-current furnaces, vacuum induction and plasmic furnaces; vacuum arc and electroslag remelting furnaces; five comprehensive steel treatment machines; two steel vacuum-degassed machines, an argon-oxygen refining machine; four continuous billet-casters; a blooming mill with continuous rolling mill for 200-320 millimeter and 80-180 millimeter billets; six

long product mills for 6.5-190 millimeter diameter round bar and 75-156 millimeter square bar, 6.5-10 millimeter 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

Table of Contents

wide and up to 6 millimeters thick hot-rolled coils; a cold-rolled product workshop for 0.3-4 millimeter cold-rolled stainless sheet; a forged piece hammer workshop; and a forging and pressing workshop equipped with five presses and forging machines of 1,250-2,000 tonnes. In addition, we have at our Chelyabinsk Metallurgical Plant, together with Mechel-Coke, eight coking batteries, seven 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Sintering	5,200	86.4%	700
Pig Iron	4,300	88.5%	
Steel-making	5,177	90.7%	
Rolling	4,751	87.0%	
Forging and pressing	91	53.2%	
Coking	3,100	74.1%	

Chelyabinsk Metallurgical Plant produced, together with its wholly owned subsidiary Mechel-Coke, 4.7 million tonnes of raw steel, 4.1 million tonnes of rolled products and 2.3 million tonnes of coke in 2009.

In the second half of 2007, we began an upgrade of Chelyabinsk Metallurgical Plant s arc-furnace melting shop No. 6 to increase continuous slab production capacity to 1.2 million tonnes per year. Danieli & C. Officine Meccaniche S.p.A., an Italian supplier of equipment and plants to the metals industry (**Danieli**), is the basic equipment provider for the concasting machine and the out-of-furnace processing complex. Currently, all basic manufacturing equipment has been supplied and construction-and-assembling operations are being completed. Commissioning of the concasting machine is scheduled for the second half of 2010.

In 2008, we started construction of a universal rail and structural steel mill at the Chelyabinsk Metallurgical Plant. The project is 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, including high speed and low-temperature rails, H-beams, shapes and grooves for port construction.

The project will require US$665.0 million in capital investments. The launch of the new rolling mill is scheduled for the end of 2011. On June 30, 2008, Chelyabinsk Metallurgical Plant entered into an agreement with Danieli to supply 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.

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 during the 2011-2030 period. The annual minimum supply volume is fixed at 400,000 tonnes of rail.

Izhstal

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

Izhstal s principal production lines include one EAF of 30 tonnes; aggregate ladle furnace and ladle vacuum oxygen decarburizer; blooming mill for 100-220 millimeter square billets; three medium-sized long

Table of Contents

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. It also has a drawing and seizing workshops, equipped with, among other things, various drawing machines, a pickling line, bell furnaces and patenting lines. In May 2009, the electrical open hearth workshop, equipped with three open hearth furnaces of 130-135 tonnes each and three electric furnaces of 30 tonnes each, was stopped because its operations were not profitable. In August 2009 one of the 30 tonne electric furnaces at another arc-furnace workshop ceased operating as part of the plant s modernization. The following table sets forth the capacity and the capacity utilization rate for each of Izhstal s principal production areas.

Production Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Steel-making	190	98.6%	170
Rolling	390	72.2%	120
Wire products and seized rolling	57.1	51.4%	
Forging and stamping	21.6	55.6%	

Izhstal produced approximately 189 thousand tonnes of raw steel, 281.7 thousand tonnes of rolled products, 29.3 thousand tonnes of wire products and seized rolling and 12.0 thousand tonnes of stampings and forgings in 2009.

In 2009, Izhstal s total output was reduced as part of our strategy to focus on high-quality products. Other reasons for Izhstal s low capacity utilization rates were reduced customer orders and the inefficiency of running high-capacity industrial processes like blooming mills at a low utilization rate. 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. Currently, the concasting machine equipment has been supplied and construction-and-assembling operations are being finalized; pre-commissioning of the concasting machine is scheduled for May 2010. The main parts of the EAF and the out-of-furnace processing complex equipment have been supplied and construction-and-assembling operations are being carried out; the commissioning is expected to be completed by mid-2010. With regard to the reconstruction of rolling mill No. 250, Siemens VAI Metals Technologies S.R.L has delivered 47% of the equipment and 90% of the basic engineering. The upgrade process is expected to result 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 mountain range, 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 engineering 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 wire rod of 5.5-12 millimeters in diameter and a number of wire products workshops equipped with drawing, rewinding, wire stranding, cabling and closing machines and heat treatment furnaces, wire annealing and

galvanizing, patenting and galvanizing lines. In 2009, we invested $1.85 million to improve product quality, increase output, reduce production costs and increase profitability. Due to this investment, in September 2009 we commissioned a complete cold rolling line with a total cost of $1.6 million and began production of cold rolled reinforcing wire which is a new kind of wire product for Beloretsk Metallurgical Plant. The wire is actively used in the construction industry for welding meshes and production

Table of Contents

of stir-ups. 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Rolling	601	90.3%	
Wire products	480	68.5%	

Beloretsk Metallurgical Plant produced a total of 599,775 tonnes of steel products made from semi-finished steel products in 2009, including 270,818 tonnes of wire rod and 328,957 tonnes of wire products.

Vyartsilya Metal Products Plant

Vyartsilya Metal Products Plant is a wire products plant in the Karelian Republic, an administrative region in northwestern 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, automotive and furniture industries. We acquired Vyartsilya Metal Products Plant in 2002.

Vyartsilya Metal Products Plant s principal production facilities include drawing and chain linking machines and nail 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Wire products	96	100.1%	

Vyartsilya Metal Products Plant produced 96,211 tonnes of wire products in 2009.

Urals Stampings Plant

Urals Stampings Plant is one of Russia s largest producers of stampings from specialty 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 specialty steel needs from Chelyabinsk Metallurgical Plant. We acquired Urals Stampings Plant in 2003.

Urals Stampings Plant s principal production facilities 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Stampings and forgings	100	48.5%	

Urals Stampings Plant produced 48,925 tonnes of specialty steel stampings in 2009.

Mechel Targoviste

Mechel Targoviste is a major Romanian EAF steel mill that produces specialty and carbon long products, forgings and seized rolling. Mechel Targoviste is the largest producer of long products in Romania and the second largest producer of raw steel in Romania, according to UniRomSider, a Romanian association of steel manufacturers. The plant s customers are largely from the engineering, automotive, tool, ball-bearing, tube, seized rolling and construction industries. We acquired Mechel Targoviste in 2002.

Table of Contents

Mechel Targoviste s principal production lines include an EAF workshop equipped with one modernized electric arc furnace with a 75-tonne capacity; steel vacuum processing and two stove-basket aggregates; a continuous billets caster; a blooming mill for 80-400 millimeter square and 90-145 millimeter round billets; and two continuous long products rolling mills for 20-80 millimeter round bars, 24-57 millimeter hexagonal bars, 60-70 millimeter square bars, bands of 6-12 millimeter thickness and 60-120 millimeter width, 12-26 millimeter bundle rod and reinforcing steel; and a press-forging workshop. The following table sets forth the capacity utilization rate and the planned increase in capacity for each of Mechel Targoviste s principal production areas.

Production Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Steel-making	550	58.4%	
Forging and pressing	37	0.6%	
Rolling	780	40.6%	
Seized rolling	18	12.8%	

Mechel Targoviste produced 321,210 tonnes of raw steel, 316,317 tonnes of rolled products, 2,312 tonnes of seized rolling and 213 tonnes of forgings in 2009.

In 2009, Mechel Targoviste experienced low rolling capacity utilization rates due to efforts to reduce production costs and increase quality, as well as due to the inefficiency of running its blooming process, involving high-capacity machinery with high power requirements, at low capacity utilization levels. The low forging and pressing capacity utilization rates were due to a decrease in demand due to the global economic slowdown.

Mechel Campia Turzii

Mechel Campia Turzii is a leading Romanian domestic wire products plant that produces different kinds of wire products (including various types of wire, ropes, meshes, welding electrodes and nails) as well as long steel products. The plant s customers are largely from the construction and engineering industries. We acquired Mechel Campia Turzii in 2003.

Mechel Campia Turzii s principal production lines include several wire drawing workshops equipped with drawing machines, nail-making presses and wire annealing and galvanizing lines, wire patenting lines, as well as combined patenting and galvanizing lines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Mechel Campia Turzii s principal production areas.

Production Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Rolling[(1)]	300	45.9%	
Wire products	100	48.5%	

(1) Includes steel rolled for further processing in the wire products manufacturing process as well as rolling of products ready for sale.

Mechel Campia Turzii produced 118,365 tonnes of rolled products and 48,499 tonnes of wire products in 2009.

One arc-furnace melting workshop and two rolling mills were taken off-line in the course of our reorganization of the production line at Mechel Campia Turzii.

Table of Contents

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, engineering and furniture industries. We acquired Mechel Nemunas in 2003.

Mechel Nemunas s principal production facilities include drawing machines and nail presses with shank threading, chain linking machines and butt-welding machines. 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Wire products	70	81.2%	

Mechel Nemunas produced 56,808 tonnes of wire products in 2009.

Ductil Steel

Ductil Steel is a Romanian company that owns the Buzau plant, which produces carbon and low alloyed steel rolled and wire products, and the Otelu Rosu plant, which produces steel and billets for rolling. The Otelu Rosu plant s products are supplied to the Buzau plant, Mechel Campia Turzii and to third parties domestically within Romania.

Prior to this acquisition, we already owned two steel plants in Romania: Mechel Targoviste and Mechel Campia Turzii. Following our acquisition of Ductil Steel, in order to enhance the performance and efficiencies of our Romanian subsidiaries, we established Mechel East Europe Metallurgical Division, effective from October 22, 2008.

The main objective of the Mechel East Europe Metallurgical Division will be to coordinate the operations of Mechel s steel subsidiaries in Eastern Europe, including investment, modernization, streamlining and production cost reduction efforts through the implementation of efficient logistics planning for raw material purchases and product marketing. Additionally, the Mechel East Europe Metallurgical Division will handle human resources policy and coordinate contacts with banks and other financial institutions. The division s top priority will be the modernization of the Ductil Steel Buzau, Otelu Rosu, Mechel Targoviste and Mechel Campia Turzii steel plants.

Ductil Steel s principal production facilities include a continuous billets caster, a continuous rolling mill and several wire processing workshops equipped with drawing machines, nail-making presses and wire annealing, annealing and galvanizing lines, cold rolling lines for reinforcing wire and mesh-welders for its processing into reinforcing meshes. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Ductil Steel s principal production area.

Production Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)

		(In thousands of tonnes, except for percentages)	
Steel-making	388	67.2%	212
Rolling	300	76.7%	
Wire products	105	61.6%	

Ductil Steel produced 260,663 tonnes of raw steel, 230,230 tonnes of rolled products and 64,671 tonnes of wire products in 2009.

Table of Contents

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.

	2009		2008		2007	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Coke	138.7	4%	377.5	7%	248.8	6%
Coking Products	22.6	1%	35.3	1%	36.0	1%
Pig Iron	45.4	1%	19.1	0%	4.1	0%
Semi-Finished Products, including:	496.8	15%	475.7	9%	555.1	13%
Carbon and Low-Alloyed Semi-Finished Products[(1)]	481.3	15%	425.1	8%	446.5	10%
Long Steel Products, including:	1,463.6	44%	2,682.4	49%	1,830.1	42%
Stainless Long Products	43.4	1%	53.0	1%	44.8	1%
Alloyed Long Products	68.6	2%	158.0	3%	151.9	4%
Rebar	877.5	26%	1,632.8	30%	1,017.1	24%
Wire Rod	203.5	6%	240.3	4%	190.1	4%
Carbon and Low-Alloyed Engineering Steel	270.5	8%	598.3	11%	426.3	10%
Flat Steel Products, including:	262.0	8%	475.6	9%	421.8	10%
Stainless Flat Products	103.2	3%	184.6	3%	193.5	4%
Carbon and Low-Alloyed Flat Products	158.8	5%	291.0	5%	228.3	5%
Forgings, including:	76.4	2%	180.9	3%	164.7	4%
Stainless Forgings	12.2	0%	24.5	0%	26.5	1%
Alloyed Forgings	2.7	0%	20.8	0%	20.8	0%
Carbon and Low-Alloyed Forgings	58.8	2%	107.2	2%	86.9	2%
Forged Alloys	2.1	0%	28.3	1%	30.5	1%
Stampings	136.8	4%	236.1	4%	201.4	5%
Wire Products, including:	473.2	14%	891.5	16%	603.4	14%
Wire	319.5	10%	640.2	12%	414.5	10%
Ropes	45.8	1%	84.4	2%	73.2	2%
Other	192.1	6%	121.0	2%	241.5	6%
Total	3,307.6	100%	5,495.1	100%	4,306.9	100%

(1) Excludes revenues from slab sales.

Table of Contents

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)]	**2009**	**2008**	**2007**
Russia	51.5%	59.0%	59.2%
Other CIS	7.7%	5.7%	5.9%
Europe	18.3%	24.7%	19.5%
Asia	5.8%	2.2%	1.0%
Middle East	15.3%	5.5%	13.1%
United States	0.3%	0.8%	0.6%
Other	1.1%	2.0%	0.6%
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.

In 2009, the five largest customers of our steel segment products were Severstal OAO (coke and other steel products), Sun Wise General Trading LLC (carbon and low-alloys semi-finished products, wire rod and other steel products), MIT FZA (carbon and low-alloyed semi-finished products, wire rod, carbon and low-alloyed flat steel and other steel products), Metallservis OAO (carbon and low-alloyed semi-finished products, carbon and low-alloyed long steel and other steel products), and Balli Steel Public Limited Company (carbon and low-alloyed semi-finished products, rebar and other steel products), which together accounted for 8.8% of our steel segment sales.

On November 13, 2008, Chelyabinsk Metallurgical Plant and Russian Railways signed an agreement for supply of rails during the 2011-2030 period. The minimum annual supply volume is fixed at 400,000 tonnes of rails.

The majority of our steel segment export sales are made to independent distributors pursuant to framework contracts. These framework contracts generally specify certain ports to which we must deliver our products. The distributors 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.

Based on such documentation, we are aware that certain of our products are sold to countries that are subject to international trade restrictions or economic embargoes that prohibit U.S. incorporated entities and U.S. citizens and residents from engaging in commercial, financial or trade transactions with such countries, including countries such as Iran and Syria (the **Sanctioned Countries**). We estimate that approximately 7.1% of our total sales in 2009 were sold in the Sanctioned Countries, mostly by independent distributors to other distributors or end-users. Such sales accounted for 2.2% of our total sales in 2008.

In addition, we have a very limited number of direct sales to customers in the Sanctioned Countries, amounting to approximately 0.5% of our total sales in 2009. The increase of our indirect sales to Iran and to Syria in 2009 was the

result of a steady demand and pricing for construction steel in Iran and in Syria, whereas in the rest of our markets, especially in Russia and in Europe, demand was weak due to the economic situation during 2009. We believe that if demand for steel increases elsewhere, our indirect sales to Iran and Syria will decrease.

We are aware of governmental initiatives in the United States and elsewhere to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with the Sanctioned Countries. While we are not a U.S. person that would be subject to such regulations, we recognize that dealings with the Sanctioned Countries can have an adverse effect on our international reputation.

Table of Contents

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 25 to our consolidated financial statements.

Products	**2009**	**2008**	**2007**
	(In millions of U.S. dollars, except for percentages)		
Coke	138.7	377.5	248.8
Domestic	94.5%	77.6%	78.0%
Export	5.5%	22.4%	22.0%
Coking Products	22.6	35.3	36.0
Domestic	63.2%	52.6%	64.2%
Export	36.8%	47.4%	35.8%
Pig Iron	45.4	19.1	4.1
Domestic	39.8%	100.0%	93.3%
Export	60.2%	0.0%	6.7%
Semi-Finished Steel Products	496.8	475.7	555.1
Domestic	7.8%	18.7%	12.6%
Export	92.2%	81.3%	87.4%
Long Steel Products	1,463.6	2,682.4	1,830.1
Domestic	69.2%	81.8%	75.4%
Export	30.8%	18.2%	24.6%
Flat Steel Products	262.0	475.6	421.8
Domestic	86.7%	79.7%	79.0%
Export	13.3%	20.3%	21.0%
Forgings	76.4	180.9	164.7
Domestic	60.1%	53.8%	61.4%
Export	39.9%	46.2%	38.6%
Stampings	136.8	236.1	201.4
Domestic	85.5%	84.9%	79.5%
Export	14.5%	15.1%	20.5%
Wire Products	473.2	891.5	603.4
Domestic	76.5%	79.4%	77.9%
Export	23.5%	20.6%	22.1%
Other	192.1	121.0	241.5
Domestic	88.3%	83.8%	88.3%
Export	11.7%	16.2%	11.7%
Total	3,307.6	5,495.1	4,306.9
Domestic	64.6%	74.6%	68.5%
Export	35.4%	25.4%	31.5%

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 construction (covers, floor plates), the automotive industry (spare parts) and pipe manufacturing and shipbuilding (non-critical applications). 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 basic materials industry (molds, balls for crushing) and other

Table of Contents

industries. Our forgings and stampings are primarily used in the automotive, aerospace, petrochemical, textile and food and consumer goods sectors.

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 2009.

Use by Industry	Metal Works, Wire Products Plants	Pipe Factories	Construction	Railway Engineering	Railway Construction, Repair	Power Generation	Other Industries[1]
Semi-Finished Steel Products	98.4%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%
Long Steel Products	0.9%	3.8%	44.8%	6.6%	0.1%	0.0%	43.8%
Flat Steel Products	0.9%	3.8%	14.6%	11.7%	0.0%	0.2%	68.8%
Forgings	0.0%	53.6%	0.0%	46.4%	0.0%	0.0%	0.0%
Stampings	0.0%	0.0%	0.0%	88.2%	0.2%	0.0%	11.6%
Wire Products	18.2%	0.0%	36.7%	7.8%	1.8%	0.3%	35.2%

(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, Southeast Asia and the Middle East.

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

In 2009, 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 Estar Group Companies and the Donetsk Electrometallurgical Plant (**DEMP**), which are considered related parties in our consolidated financial statement. See notes 10 and 27 to our consolidated financial statements.

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 has 55 storage sites in 42 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 926 employees as of December 31, 2009.

Table of Contents

Our Romanian domestic sales are carried out by our Romanian subsidiaries Mechel Campia Turzii, Mechel Targoviste, Ductil Steel and Mechel Service Romania.

Export sales

Most of the exports in our steel segment are made to independent distributors, which then sell our products to end users. Our subsidiary Mechel Trading has active wholesales offices in Liechtenstein, Belgium, Switzerland and Singapore.

We actively develop sales of high-quality rolled products to local end-user customers in Europe through Mechel Service Global s subsidiaries. In 2009, Mechel Service Global opened new offices in Belgium, France, Italy, Serbia and Bulgaria. In Germany, HBL Holding, a subsidiary of Mechel Service Global, opened a new office and a covered warehouse with modern equipment for cutting high-quality steel in the city of Rheine. Our production facilities supply high-quality steel 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 products to wholesalers on a walk-in basis.

Our Romanian export sales are carried out directly by our Romanian production facilities Mechel Campia Turzii, Mechel Targoviste and Ductil Steel as well as by Mechel Service Global and Mechel Trading.

Distribution

Rail transportation is used for nearly all shipments from our production facilities and warehouses to our end customers, wholesale warehouses or sea ports.

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 86.6% of overall domestic crude steel output in 2009, according to Metal Expert.

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

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 largest steel manufacturer by volume on a consolidated basis, accounting for 19.3% of Russia s total commodity steel products output (including long products, flat products, and semi-finished products) in 2009. 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 Vanady 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.

Novolipetsk Metallurgical Works OAO (**NLMK**) had 14.5% of the volume of Russian commodity steel production in 2009. The company produces primarily flat products (hot-rolled and cold-rolled), including

galvanized products. NLMK exported 76.5% of its products in 2009. 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

Table of Contents

Berezovsky Electro-Steel Works. These facilities are managed by the NLMK-Long steel OOO which had a 3.0% share in domestic commodity steel products output in 2009.

Magnitogorsk Iron & Steel Works OAO (**MMK**) is Russia s third-leading steel manufacturer by volume, accounting for 16.0% of the volume of Russian commodity steel products output in 2009. MMK s product mix is comprised mostly of flat products, representing 88.6% of its commercial steel products output (including production of slabs) in 2009. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 50.5% of its output in 2009. Its production facilities are located in Magnitogorsk in the southern Urals.

Severstal OAO had a 15.7% share by volume of Russian commodity steel products output in 2009. The company specializes in flat products which constitute a significant part of its production. Severstal is the third-leading producer of flat products and controls 25.6% of Russia s total flat product production output. Domestic sales accounted for 47.9% of Severstal s output in 2009, 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 10.1% share of Russian commodity steel products output. OEMK produces only long products, and Ural Steel produces both long and flat products. Metalloinvest exported 73.3% of its commodity steel production in 2009. The company s production facilities are located in the Central and Urals federal districts of Russia. Alisher Usmanov, one of Metalloinvest s main owners, 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 largest and most comprehensive producer of specialty steel and alloys in Russia, and accounted for 36.9% of total Russian specialty steel output by volume in 2009, 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 specialty long steel products, according to Metal Expert and Chermet.

In the Russian non-specialty long steel product category, our primary products and our market positions by production volume in 2009 were as follows, according to Metal Expert:

Reinforcement bar (**rebar**) In rebar, we compete in the 6-40 millimeters range. In 2009, the largest domestic rebar producers were Mechel (26.9%), Evraz Group (26.3%), NLMK-Long steel (21.7%) and Severstal (6.4%). At present, the Russian domestic market for rebar is protected from Ukrainian imports by an import quota. The quota has been imposed by agreement between Russia and Ukraine as the result of a review of the import tariff which was in force until July 14, 2007. The agreement expires on January 1, 2011.

Wire rod There were five major producers of wire rod in Russia in 2009: Mechel (39.6%), Evraz Group (23.9%), Severstal (15.7%), NLMK-Long steel (11.5%) and MMK (8.9%). We produce some of the highest quality and widest ranges of wire rod (5-10 millimeters) among Russian producers.

OEMK, an electric arc furnace steel mill specializing in long carbon and specialty steel products and our nearest specialty 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 specialty long steel products (bearing, tool, high-speed and stainless steel) in 2009, producing 23.9% of the total Russian output by volume, and we had significant shares of Russian 2009 production volumes of stainless long products (50.4%), tool steel (31.5%) and high-speed steel (47.3%).

Table of Contents

The following tables set forth additional information regarding our 2009 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.	5,413.0	32.5%
Mechel OAO	2,939.6	17.6%
NLMK-Long steel OOO	1,373.8	8.2%
Metalloinvest Management Company OOO	1,334.0	8.0%
Severstal OAO	999.4	6.0%
MMK OAO	999.2	6.0%
Other	3,617.6	21.7%
Total	16,676.6	100%

Source: Metal Expert.

Long products Wire rod[1]

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	927.8	39.6%
Evraz Group S.A.	560.1	23.9%
Severstal OAO	367.3	15.7%
NLMK-Long steel OOO	269.8	11.5%
MMK OAO	207.5	8.8%
Amurmetall OAO	11.5	0.5%
Total	2,344.0	100%

Source: Metal Expert.

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

95

Table of Contents

Long products Rebar

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	1,372.6	26.9%
Evraz Group S.A.	1,339.4	26.3%
NLMK-Long steel OOO	1,104.0	21.7%
Severstal OAO	576.0	11.3%
MMK OAO	327.0	6.4%
Metalloinvest Management Company OOO	206.5	4.1%
Other	168.0	3.3%
Total	5,093.5	100%

Source: Metal Expert.

Flat stainless steel

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	31.0	70.6%
Severstal OAO	6.3	14.3%
VMZ Red October	4.4	10.0%
MMZ Hammer & Sickle	1.3	3.0%
Other	0.9	2.1%
Total	43.9	100%

Source: Metal Expert.

Wire products

	Market Share

Manufacturer	Production	by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	414.5	32.1%
Severstal-Metiz OAO	354.3	27.4%
NLMK-Long steel OOO	189.5	14.7%
MMK-Metiz OAO	179.2	13.9%
Evraz Group S.A.	124.6	9.7%
Other	28.5	2.2%
Total	1,290.6	100%

Source: Prommetiz, manufacturers data.

Table of Contents

Wire products Spring wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	34.2	58.9%
Severstal-Metiz OAO	19.7	33.9%
MMK-Metiz OAO	4.2	7.2%
Total	58.1	100%

Source: Manufacturers data.

Wire products High-tensile wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	52.5	47.6%
Severstal-Metiz OAO	50.5	45.8%
MMK-Metiz OAO	7.3	6.6%
Total	110.3	100%

Source: Prommetiz.

The following tables set forth additional information on our market shares in Romania for various categories of steel products in 2009.

Long products Rebar

Manufacturer	Production	Market Share by Production Volume

	(In thousands of tonnes, except for percentages)	
Mechel companies (Mechel Targoviste, Mechel Campia Turzii, Ductil Steel)	439.0	94.0%
Otelinox Targoviste	22.3	4.8%
Laminate Bucuresti	5.7	1.2%
Total	467.0	100%

Wire rod

Manufacturer	**Production**	**Market Share by Production Volume**
	(In thousands of tonnes, except for percentages)	
Mechel companies (Mechel Campia Turzii, Ductil Steel)	135.7	100%
Total	135.7	100%

Table of Contents

Sections

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Laminorul Braila	52.4(1)	92.9%
ArcelorMittal Hunedoara	4.0	7.1%
Total	56.4	100%

(1) Of this volume, 47.20 thousand tonnes were produced under a tolling contract with Mechel Targoviste.

Bars

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel company (Mechel Targoviste)	20.2	25.6%
TMK-CSRresita	28.6	36.2%
ArcelorMittal Hunedoara	30.2	38.2%
Total	79.0	100%

Cold-drawn wire

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel companies (Mechel Campia Turzii, Ductil Steel)	91.5	53.2%
Metalicplas Dej	44.1	25.6%
Dan Steel Beclean	13.5	7.8%
Sarme si Cabluri Harsova	13.6	7.9%
Ductil Buzau	9.5	5.5%

Total	172.2	100%

Galvanized wire

Manufacturer	**Production**	**Market Share by Production Volume**
	(In thousands of tonnes, except for percentages)	
Mechel companies (Mechel Campia Turzii, Ductil Steel)	36.9	59.2%
Metalicplas Dej	2.6	4.3%
Dan Steel Beclean	16.3	26.1%
Sarme si Cabluri Harsova	6.5	10.4%
Total	62.3	100%

Table of Contents

Welded mesh

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel company (Ductil Steel)	31.0	29.6%
Metalicplas Dej	35.1	33.5%
Dan Steel Beclean	38.5	36.9%
Total	104.6	100%

Raw materials

The principal raw materials we use in the making of steel are coke (produced from coking coal), iron ore, nickel, ferrous scrap and limestone. We supplied 61.0% of our own group-wide coking coal needs in 2009, although our total coking coal concentrate production volume exceeded our group s needs. We process coking coal concentrate into coke at Mechel-Coke, located in the Urals, and Moscow Coke and Gas Plant, which we acquired in 2006. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in our ferroalloys production. In 2009, we produced and internally used approximately 2.1 million tonnes of coke in our production facilities and produced and sold another approximately 1.0 million tonnes of coke to third parties. In 2009, our production facilities used 4.0 million tonnes of coking coal (including 2.9 million tonnes used by Mechel-Coke and 1.1 million tonnes used by Moscow Coke and Gas Plant), and 61.0% of total usage was sourced internally.

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. In 2009, our steel-making operations used 5.9 million tonnes of iron ore feed, approximately 31.0% in the form of pellets and 69.0% in the form of sinter, and we internally sourced 11.7% of our total iron ore feed requirements during this period. Korshunov Mining Plant supplied our steel segment with 394 thousand tonnes of iron ore concentrate in 2009. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. We purchase most of the remaining part of our iron ore feed from Russian domestic suppliers such as Karelsky Okatysh and Vysokogorsky GOK under annual contracts with monthly adjustments of prices and volumes, and Lebedinsky GOK and Mikhailovsky GOK under monthly and quarterly contracts on market terms.

We produce 63.7% of our steel production in basic oxygen furnaces. In steel making, ferrous scrap represents approximately 46% of feedstock, and we are approximately 32.7% self-sufficient in this raw material, which amounts to 777,000 tonnes of scrap, sourcing the balance from various scrap traders. We generate our own scrap supply through Metals Recycling, a Chelyabinsk-based metal scrap processing company which we acquired in March 2006. In addition, Mechel Trading House has a branch in Chelyabinsk through which it purchases scrap metal from third-party suppliers and sells it to the companies within our group.

In 2009, we used nickel sourced from Norilsk Nickel and Ufaleynickel in the production of stainless and other specialty steels. In 2009 our production facilities used 4,178 tonnes of nickel (including 1,569 tonnes at Chelyabinsk Metallurgical Plant, 1,693 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 916 tonnes at Izhstal) of which 57.4% was supplied by ferronickel produced at Southern Urals Nickel Plant and 42.6% was purchased from

third parties.

In 2009, our production facilities used 23,746 tonnes of ferrosilicon (including 21,166 tonnes at Chelyabinsk Metallurgical Plant, 409 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 2,171 tonnes at Izhstal), almost all of which was supplied by Bratsk Ferroalloy Plant.

In 2009, our production facilities used 16,291 tonnes of ferrochrome (including 10,353 tonnes at Chelyabinsk Metallurgical Plant, 1,725 tonnes at the Chelyabinsk branch of Urals Stampings Plant and

Table of Contents

4,212 tonnes at Izhstal) of which 70.6% was supplied by Tikhvin Ferroalloy Plant and 29.4% was purchased from third parties.

We internally source all of our limestone requirements from our Pugachev quarry. In 2009, we used approximately 1.1 million tonnes of limestone in the production of steel.

Steel-making requires significant amounts of electricity to power electric arc furnaces and rolling mills and to convert coal to coke. In 2009, our steel and ferroalloy operations consumed approximately 5.2 billion kWh of electricity, of which 2.0 billion kWh was used at Chelyabinsk Metallurgical Plant, 2.5 billion kWh was used at other Russian facilities and 609.2 million kWh was used at our Eastern European plants. Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Mechel-Energo have power co-generation facilities, which produced 1.7 billion kWh of electricity for internal consumption in 2009, yielding 22% self-sufficiency overall for our group (including mining operations), which consumed 6.3 billion kWh of electricity in 2009. The balance was purchased from local utilities. Aside from Southern Kuzbass Power Plant and Toplofikatsia Rousse, which run on steam coal, 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 Gazprom. In 2009, we consumed 2,392.3 million cubic meters of blast furnace gas, 457.7 million cubic meters of coke gas and 941.0 million cubic meters of natural gas. In 2009 Southern Kuzbass Power Plant and Toplofikatsia Rousse consumed 1.4 million tonnes of steam coal sourced both from our own coal mining assets and from third parties.

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 8.2% of its water needs from a local river and the rest from recycled water. Vyartsilya Metal Products Plant sources 100% of its water needs from a local river. Southern Urals Nickel Plant sources 31.9% of its water needs through recycling, 60.8% from a local river. Mechel Targoviste sources 1.6% of its production water needs from a local river and the rest is recycled/recirculated water. 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, duties and quotas 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. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We face numerous protective trade restrictions in the export of our steel products and ferroalloys, and we may face export duties in the future.

In 2009, approximately 2.9% 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.

Table of Contents

European Union

Our steel sales to the European Union in 2009 were approximately $0.6 billion, or 17.9% of our total steel segment revenues. The Russian government and the European Union have an export quota system in place whereby Russian exports to the European Union are limited to certain stipulated quantities for each product category. The quota by product category is distributed among Russian producers based on a procedure jointly developed by the Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Industry and Energy of the Russian Federation. Effective as of May 13, 2008, these ministries have been reorganized into the Ministry of Economic Development and the Ministry of Industry and Trade, respectively, with the old Ministry of Industry and Energy s energy functions being transferred to a new Ministry of Energy and the trade functions of the old Ministry of Economic Development and Trade being transferred to a new Ministry of Industry and Trade. The procedure provides that for each product category, a company s export quota allocation is calculated on the basis of shipments by the company of the particular product over the previous years to the E.U. market (which is given a 70% weight), and on the company s market share in domestic production of the particular product (which is given a 30% weight). After the quotas are calculated, the Russian Ministry of Industry and Trade confirms quota allocations and issues export licenses for these quotas. In 2009, the quota covered approximately 37.2% of our steel segment products exported to the European Union.

In 2009, the total E.U. quota for Russian steel was 3,107 thousand tonnes, and we received 318.5 thousand tonnes of the total quota. We have used 44% of our individual quotas both in long and flat steel products. The European Union-Russia Steel Agreement for 2010 provides for the total Russian quota to be 3,119 thousand tonnes. Our quota is set at approximately 335.4 thousand tonnes, which includes 19.7 thousand tonnes for flat products and 315.7 thousand tonnes for long products. Our supply of wire rod to Mechel Nemunas, our wire products plant in Lithuania, and to our Romanian subsidiary Mechel Campia Turzii is also subject to the E.U. export quota system, and our quota for those supplies is 110.8 thousand tonnes for 2010.

In addition, 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 European Union in October 2007, this duty was reduced to 36.2% and imposed for a period of five years.

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. A distribution of quotas between specific Russian producers and the execution of export licenses is carried out in accordance with the same procedure that applies to exports to the E.U. market. There are no trade restrictions applicable to the export of our Romanian or Lithuanian products to the United States.

Ferroalloys Segment

Our ferroalloys segment produces and sells low-ferrous ferronickel, ferrochrome and ferrosilicon produced at Southern Urals Nickel Plant, Bratsk Ferroalloy Plant and Tikhvin Ferroalloy Plant, respectively. The following table sets our production volumes for each of our ferroalloy segment products.

	2009	2008	2007
	(In thousands of tonnes)		
Ferrosilicon	86.0	91.9	37.8

Ferrochrome	82.6	57.8	
Nickel	15.6	16.2	17.1

Table of Contents

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. Carbon ferrochrome is used in the iron industry to alloy construction steel and heat-resistant and stainless steels. We produce 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 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. 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 up to 8% of the carbon being dissolved in this alloy. 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 operates two open-pit nickel ore mines, Sakhara and Buruktal, as well as a nickel production plant in Orsk. 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.

Table of Contents

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	Area (sq. km)	Year Production Commenced
Buruktal	Southern Urals Nickel Plant	December 2012	In production	11.9	1968
Sakhara	Southern Urals Nickel Plant	April 2013	In production	2.2	1994

The following table summarizes our nickel ore and nickel products production for the periods indicated:

	2009		2008		2007	
	Tonnes	Grade (% Ni)	Tonnes	Grade (% Ni)	Tonnes	Grade (% Ni)
	(In thousands of tonnes)[1]					
Sakhara ore production	964.5	1.00%	1,025.7	1.07%	1,236.1	1.13%
Buruktal ore production	1,679.3	1.07%	1,436.4	1.05%	1,591.3	1.05%
Total ore production	2,643.8	1.04%	2,462.1	1.06%	2,827.4	1.09%
Nickel production	15,565.0		16,158.0		17,111.0	

(1) Volumes are reported on a wet basis.

Chrome ore and silicate nickel ore production

Through our acquisition of Oriel Resources in April 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.

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 1.2 million tonnes of chrome ore and 0.9 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
Voskhod	Voskhod-Oriel	October 2029	In production	1.54	2008
Shevchenko	Kazakhstansky Nickel Mining Company	March 2017	Feasibility study	135	n/a

Table of Contents

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 km southwest of Nizhneudinsk in the Irkutsk region. After completion of additional exploration at the deposit in 2011, we plan to start mining quartzite to be supplied to our Bratsk Ferroalloy Plant.

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
Uvatskoye	Bratsk Ferroalloy Plant	July 2033	Exploration	18.21	n/a

Ferroalloy 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 megawatts 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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Low-ferrous ferronickel production	18	89%	1

Southern Urals Nickel Plant produced 15,565 tonnes of nickel in 2009.

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.

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 Areas	Capacity in 2009	Capacity Utilization Rate in 2009	Planned Increase (2010-2012)
	(In thousands of tonnes, except for percentages)		
Ferrosilicon production	91	95%	4

Bratsk Ferroalloy Plant produced 86,010 tonnes of ferrosilicon in 2009.

Table of Contents

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 megavolt-amperes each. For effective 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 and starting from 2010 we intend to increase its production capacity to 180,000 tonnes of high carbon ferrochrome per annum. 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. In the first half of 2009, the plant operated at a low level of capacity (60%) because of difficulties in marketing its output. By the end of 2009, the plant reached its current capacity. The plant consumes 330,000 tonnes of chromite ore concentrate per annum, and consumption is expected to reach 400,000 tonnes per annum after the planned production capacity increase is implemented in 2011.

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.

	2009		2008		2007	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Nickel[(1)]	190.6	52.4%	281.3	64.8%	468.9	93.6%
Ferrosilicon	66.6	18.4%	79.3	18.2%	29.0	5.8%
Ferrochrome	92.8	25.5%	68.2	15.7%	0.0	0.0%
Other	13.7	3.7%	5.2	1.3%	3.2	0.6%
Total	363.7	100%	434.0	100%	501.1	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)]	**2009**	**2008**	**2007**
Russia	14.6%	23.0%	6.3%
Other CIS	1.7%	0.1%	0.0%
Europe	69.6%	74.4%	93.6%

Asia	12.3%	1.4%	0.1%
Middle East	0.0%	0.0%	0.0%
United States	1.5%	1.1%	0.0%
Other	0.3%	0.0%	0.0%
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.

Table of Contents

In 2009, our ferroalloys segment sales outside of Russia were principally to Europe. Sales in Europe accounted for 69.6% 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 64.2% of our ferroalloys segment sales in 2009.

Customer	% of Total Ferroalloys Segment Sales	Product	% of Total Products Sales
Outokumpu Rossija Oy	19.0%	Nickel	36.2%
		Chrome	0.1%
Stratton Metals, LTD.	18.6%	Nickel	35.5%
Glencore	11.1%	Nickel	17.3%
		Chrome	8.2%
Scanalloys, LTD.	9.1%	Ferrosilicon	9.7%
		Chrome	28.7%
A&M Trading	6.4%	Nickel	8.4%
		Ferrosilicon	1.8%
		Chrome	6.4%

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

Products	2009	2008	2007
	(In millions of U.S. dollars, except for percentages)		
Nickel[(1)]	190.6	281.3	468.9
Domestic	2.6%	6.6%	0.0%
Export	97.4%	93.4%	100.0%
Ferrosilicon	66.6	79.3	29.0
Domestic	47.3%	92.0%	97.3%
Export	52.7%	8.0%	2.7%
Ferrochrome	92.8	68.2	
Domestic	4.9%	6.0%	
Export	95.1%	94.0%	
Other	13.7	5.2	3.3
Domestic	50.6%	94.3%	100.0%
Export	49.4%	5.7%	0.0%
Total	363.7	434.0	501.1
Domestic	13.2%	23.2%	6.3%

Export	86.8%	76.8%	93.7%

(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 2.6% of total nickel revenues were received from domestic sales in 2009.

Table of Contents

In 2009, ferrosilicon was sold to Russian domestic consumers such as Metalloinvest-Steel OOO, EvrazHolding (Zapsib, NTMK, NKMK) and Severstal OAO, which together accounted for 35.0% of the total ferrosilicon sales by revenue and 6.4% of the total ferroalloys segment revenues.

Volgograd Metallurgical Works Red October was our major domestic ferrochrome customer in 2009, which accounted for 2.2% of the total ferrochrome sales and 0.6% of the total ferroalloys segment revenues.

In 2009, Mechel Trading House began sales of ferroalloy products produced by Bratsk Ferroalloy Plant, Southern Urals Nickel Plant and Tikhvin Ferroalloy Plant to third-party customers. Previously, all domestic sales were managed directly by the production plants.

We supply ferroalloys 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

Export sales together accounted for 97.4% of our total ferronickel sales and 51.1% of our total ferroalloys segment revenues. All of our ferronickel export sales in 2009 were delivered to four customers: Outokumpu Rossija Oy, Stratton Metals Ltd., Glencore International AG and A&M Trading. 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 2009, ferrosilicon export sales were delivered to such customers as Posco, Scanalloys Ltd. and ACTS Trading Corporation, which together accounted for 35.3% of our total ferrosilicon sales by revenue and 6.5% of our total ferroalloys segment revenues. Deliveries to Japanese and South Korean customers were effected on CFR delivery terms (including transportation by railway, handling in ports of Vanino and Nakhodka and chartering vessels to major Japanese ports). We mostly sell ferrosilicon at spot prices.

Ferrochrome was supplied to Europe mainly through such trading companies as Scanalloys Ltd., Glencore and DCM DECOmetal GmbH in 2009. Those sales together accounted for 62.6% of our total ferrochrome sales and 11.5% of the total ferroalloys segment revenues. Ferrochrome was delivered mainly by railway to the port of St. Petersburg, and small amounts were delivered to Eastern Europe by railcars. We mostly sell ferrochrome at spot prices.

Market share and competition

According to Metal Expert, Mechel is the third largest Russian producer of ferrosilicon and the second largest producer of ferrochrome by volume. In 2009, we had a 18.8% and 23.8% market share by volume of Russian ferrosilicon and ferrochrome production, respectively.

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

Kuznetsk Ferroalloys OAO is the largest Russian ferrosilicon producer, with a 55.9% market share by production volume in 2009. It controls Yurginsk Ferroalloys Plant OAO. Kuznetsk Ferroalloys produces microsilica and quartzite. It is primarily export-oriented, having exported 87.0% of its ferrosilicon production volume in 2009.

Chelyabinsk Electro-Metallurgical Plant OAO (**ChEMK**) is the largest Russian ferrochrome producer, with a 51.8% market share by production volume in 2009. It is also the second largest ferrosilicon producer with a

17.5% production share in 2009. In addition it produces silicomanganese and silicocalcium. ChEMK exports most of its production. In 2009, it exported 97.3% and 96.1% by volume of its ferrochrome and ferrosilicon production, respectively.

Serov Ferroalloys Plant OAO (**Serov**) is the third largest Russian ferrochrome producer, with a 23.1% market share by production volume in 2009. It also produces ferrosilicon, having a 2.1% production share in 2009. The plant is controlled by the Kazakh industrial group ENRC, which is one of the

Table of Contents

largest chrome ore and ferrochrome producers in the world, according to CRU. Serov also produces ferrosilicochrome. Serov exported 89.2% of its ferrochrome production volume in 2009, and almost all of the ferrosilicon it produced in 2009 was supplied domestically.

The following tables set forth additional information regarding our 2009 market shares in Russia for certain ferroalloy products.

Ferroalloys Ferrosilicon

Manufacturer	Region	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume, %
Kuznetsk Ferroalloys OAO	Kemerovo	275.4	55.9%
Chelyabinsk Electro-Metallurgical Plant OAO	Chelyabinsk	86.4	17.5%
Bratsk Ferroalloy Plant OAO	Irkutsk	92.9	18.8%
Yurginsk Ferroalloys Plant OAO	Kemerovo	20.9	4.2%
Serov Ferroalloys Plant OAO	Sverdlovsk	10.4	2.1%
Novolipetsk Metallurgical Plant OAO	Lipetsk	7.1	1.5%
Total		493.1	100%

Source: Metal Expert.

Ferroalloys Ferrochrome

Manufacturer	Region	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume, %
Chelyabinsk Electro-Metallurgical Plant OAO	Chelyabinsk	207.7	51.8%
Tikhvin Ferroalloy Plant ZAO	Leningrad	95.2	23.8%
Serov Ferroalloys Plant OAO	Sverdlovsk	92.7	23.1%
Klyuchevsk Ferroalloys Plant OAO	Sverdlovsk	5.1	1.3%
Total		400.7	100%

Source: Metal Expert.

The Russian nickel market is heavily dominated by Norilsk Nickel OAO, which according to its company website produced 232,800 tonnes of nickel in 2009 at its Russian facilities and has more than a 90.0% share of Russian domestic nickel output by volume.

Table of Contents

Our share of the total world nickel production was approximately 1.2% in 2009. The following table sets forth the major nickel producing countries and their and Mechel s shares of the total world nickel production in 2009.

Country	Nickel Production (Thousands of Tonnes)	% of Total World Production
Russia	255.5	19.4%
Mechel	*16.1*	*1.2%*
China	242.9	18.4%
Japan	142.2	10.8%
Australia	129.8	9.9%
Canada	116.9	8.9%
Cuba	31.8	2.4%
Ukraine	12.8	1.0%
Other	385.5	29.2%
Total World Production	1,317.4	100.0%

Source: CRU, Company data.

Our share of the total world high-carbon ferrochrome production was approximately 1.4% in 2009. The following table sets forth the major high-carbon ferrochrome producing countries and their and Mechel s shares of the total world high-carbon ferrochrome production in 2009.

Country	High-Carbon Ferrochrome Production (Thousands of Tonnes)	% of Total World Production
South Africa	2,316.8	40.2%
China	1,306.2	22.7%
Kazakhstan	889.5	15.4%
Russia	400.8	7.0%
Mechel	*82.6*	*1.4%*
Other	850.2	14.7%
Total World Production	5,763.5	100.0%

Source: CRU, Metal Expert, Company data.

Our share of the total world ferrosilicon production was approximately 1.5% in 2009. The following table sets forth the major ferrosilicon producing countries and their and Mechel s shares of the total world ferrosilicon production in 2009.

Country	**Ferrosilicon Production (Thousands of Tonnes)**	**% of Total World Production**
China	4,139.5	71.6%
Russia	438.0	7.6%
Mechel	*86.0*	*1.5%*
Brazil	203.0	3.5%
Norway	189.0	3.3%
USA	118.5	2.0%
Iceland	100.0	1.7%
South Africa	86.0	1.5%
Other	506.8	8.8%
Total World Production	5 780.8	100.0%

Source: CRU, Company data.

Table of Contents

Mineral reserves (ferroalloys)

Please see Mining Segment Mineral reserves (coal, iron ore and limestone) for a description of our mineral reserves and mineral deposits generally and our reporting of proven and probable reserves.

Nickel ore

As of December 31, 2009, we had nickel ore reserves (proven and probable) totaling 7.7 million tonnes at an average nickel grade of 1.0%. The table below summarizes our nickel ore reserves by mine.

Nickel Ore Reserves[1][2][3]	**Tonnes[4]**	**Grade (% Ni)[5]**
	(In millions of tonnes)	
Sakhara	3.2	1.0
Buruktal	4.5	1.0
Total	7.7	1.0

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) We own 84.1% of Southern Urals Nickel Plant mines. Reserves are presented for the mines on an assumed 100% ownership basis.

(3) In estimating our reserves we use an average price of $18,325 per tonne of nickel and currency conversions are carried out at average official exchange rates of the Central Bank of Russia.

(4) Volumes are reported on a dry basis.

(5) Metallurgical recovery is projected to be 73.8%.

As of December 31, 2009, we had nickel ore deposits totaling 51.0 million tonnes at an average nickel grade of 1.0%. The table below summarizes nickel ore deposits.

Nickel Ore Deposits[1]	**Tonnes[2]**	**Grade (% Ni)[3]**
	(In millions of tonnes)	
Buruktal	51.0	1.0

(1) Includes adjustments for dilution and mine recovery, based on historical records.

(2) Volumes are reported on a dry basis.

(3) Metallurgical recovery is projected to be 73.8%.

Chrome ore

At December 31, 2009 Voskhod has total proven and probable reserves of 18.3 million tonnes including 0.9 million tonnes of proven and 17.4 million tonnes of probable reserves at an average grade of 42.2% Cr_2O_3 with projected recovery of rate of 72%. In estimating our reserves we use an average contract price of $202 per tonne of chrome ore concentrate and currency conversions are carried out at average official exchange rates of the Central Bank of Kazakhstan.

Trade restrictions

In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our Bratsk Ferroalloy Plant for a period of five years.

Power Segment

Our power segment generates and sells electricity to our group companies and to external customers. It enables us to market higher 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, power generation facilities at Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Urals Stampings Plant with

Table of Contents

installed capacity of 220 MW, 30 MW and 3.5 MW, respectively, and a power sales company, Kuzbass Power Sales Company. Our subsidiary Mechel-Energo manages our power business. We also hold a 49% stake interest in Toplofikatsia Rousse, a power plant in Bulgaria. Below is a brief description of each of these facilities.

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

	2009	2008	2007
		(In million kWh)	
Electricity	3,487.7	4,088.8	3,473.5

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 as of December 31, 2009. The electricity output of the plant for the year ended December 31, 2009 was 1,758.2 million kWh. The heat power generated by the plant for the year ended December 31, 2009 was 767.1 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 2009, it consumed 1.0 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 2009 (million kWh)
VK-50-2 LMZ	1950	April 1951	53	101.9
VK-50-2 LMZ	1950	November 1951	53	96.9
VK-50-2 LMZ	1950	August 1952	53	313.8
VK-50-2 LMZ	1952	February 1953	53	186.4
T-115-8,8 LMZ	1996	December 2003	113	250.1
T-88/106-90 LMZ	1953	July 1954	88	370.6
VK-50-2 LMZ	1954	December 1954	53	74.2
T-88/106-90 LMZ	1953	September 1956	88	364.3
Total			554	1,758.2

The plant sells electricity and capacity on the wholesale market only, as well as heat energy directly to consumers. In Russia it is common for thermal power plants to produce and sell heat energy, sometimes in the form of industrial steam and sometimes in the form of hot water, for business and residential heating and household use, which is distributed in towns and cities by a network of hot water distribution pipes. Southern Kuzbass Power Plant s heat energy is distributed at regulated prices in the form of hot water in Kaltan and Osinniki.

Kuzbass Power Sales Company

Kuzbass Power Sales Company is located in the Kemerovo region and is the largest power distributing company in Siberia. Its distributed power volume in 2009 amounted to 12.4 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 the public, to social infrastructure companies, housing and public utilities and large industrial companies. Due to

Table of Contents

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 four 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 Russian Regulation Regulation of electricity market Sales of electricity Retail electricity market.

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. Currently, the plant generates 290 MW, which is below its installed capacity of 400 MW. Pursuant to our capital investment program, we are upgrading the equipment at Toplofikatsia Rousse to fully utilize its installed capacity. The plant has a total heat capacity of 554 Gcal/h and uses steam coal as fuel, most of which is supplied from our coal mines in Russia. The plant had 552 employees as of December 31, 2009.

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 structural units in the cities of Beloretsk, Vidnoye, Izhevsk, Mezhdurechensk, Chebarkul and Chelyabinsk.

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, Mezhdurechensk and Myski.

Mechel-Energo has cogeneration facilities and operates using mainly blast furnace gas and coke oven gas, which is a byproduct of steelmaking, and natural gas, which we purchase from Gazprom.

Mechel-Energo s sales amounted to 4.8 billion kWh of electricity and 4.1 million Gcal of heat energy in 2009.

Capital Investment Program

Our capital investment program includes capital spending of up to $3.7 billion for the three-year period of 2010-2012. Our capital investment program is primarily targeted at expanding the mining segment and increasing the efficiency of the steel segment. The split is approximately $2.1 billion in mining, approximately $1,135.9 million in steel, approximately $192.4 million in ferroalloys and approximately $77.8 million in the 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 high levels of indebtedness relative to our free cash flows and pledges of shares and assets of our subsidiaries to our current lenders. 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.

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. 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.

In the mining segment we expect to direct approximately $1,560.9 million to the development of the Elga coal deposit and construction of a rail branch line in 2010-2012. Investments in Southern Kuzbass Coal Company will amount to $300.5 million. We will invest approximately $126.9 million in 2010-2012 for

Table of Contents

increasing coal production at the Sibirginsk mine of Southern Kuzbass Coal Company. In the iron ore business, we will invest approximately $47.9 million in Korshunov Mining Plant.

The steel segment projects are targeted at expanding the share of value added products which we produce, while maintaining existing output, and will be mainly focused on Chelyabinsk Metallurgical Plant and Izhstal. The main project, started in 2008, is the construction of a universal rail and structural steel 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. Preliminary engineering works have been completed, and an equipment delivery contract and a construction contract have been signed and the project is planned to be completed in 2011. Due to the global financial crisis, the level of capital investments in 2009 was reduced as compared to capital investments in 2008, and completion timelines for a number of projects were extended. Any interruption in the currently improving global economic situation may similarly require us to delay the implementation of our capital investment program.

The following table sets out by segment and facility the major items of our capital expenditures currently in progress or expected to be commenced in 2010-2011.

	Planned Increase in Capacity and/or Other Improvement	**Approximate Total Planned Expenditures[(1)] (In millions of U.S. dollars)**	**Year of Project Launch**	**Estimated Year of Completion**
Mining Segment				
Maintenance expenditures	Maintaining current coal and iron ore mining and coal and iron ore concentrate production	350.1	2010	2012
Yakutugol				
Construction of a rail branch to the Elga coal deposit and the development of the Elga coal deposit	Providing access to and the development of the coal deposit	1,912.8	2008	2012
Southern Kuzbass Coal Company				
Increase of coal production of Sibirginsk mine	Increase in project capacity to 2.4 million tonnes per annum	247.6	2007	2014
Steel Segment				
Maintenance expenditures	Maintaining current output capacity	137.1	2010	2012
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	664.9	2008	2011

Construction of blooming concaster No. 5 near oxygen-converter shop with vacuum degasser and ladle furnace	Design capacity 1.0 million tonnes of billets per annum	195.5	2008	2011
Modernization of slab concaster with ladle furnace at arc-furnace shop No. 6	Design capacity 1.2 million tonnes of slabs per annum	106.3	2007	2010

Table of Contents

	Planned Increase in Capacity and/or Other Improvement	Approximate Total Planned Expenditures[(1)] (In millions of U.S. dollars)	Year of Project Launch	Estimated Year of Completion
Izhstal				
Modernization of arc-furnace melting facilities; renovation of arc-furnace shop No. 23	Increase of arc-furnace steel melting capacity to 480,000 tonnes per annum and steel quality improvements; decommissioning older open-hearth furnace	128.6	2007	2010
Reconstruction of mill No. 250	Increase in capacity to 300,000 tonnes per annum and increase in quality of rolled products	67.0	2007	2011
Mechel-Coke				
Reconstruction of coking battery No. 6	Design capacity 470,000 tonnes of coke per annum	51.1	2008	2011
Ductil Steel				
Reconstruction of steel-making shop of Otelu Rosu	Increase of billet production by 600,000 tonnes per annum	48.7	2008	2010
Ferroalloys segment				
Maintenance expenditures	Maintaining current output capacity	41.6	2010	2012
Transport division				
Maintenance expenditures	Maintaining current output capacity	7.2	2010	2012
Technical modernization of Port Posiet	Increase of production capacity by 9.0 million tonnes per annum	102.6	2004	2011
Power segment				
Maintenance expenditures	Maintaining current output capacity	26.7	2010	2012
Other				
Mechel Materialy				
Construction of grinding-mixing complex on manufacture of Portland cement and Portland blast-furnace cement	Design capacity 1.6 million tonnes of Portland cement per annum	98.4	2008	2011

(1) We estimate that approximately $312.5 million of the aforementioned planned expenditures for these projects have been made as of December 31, 2009. In 2009, we spent $612.7 million 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 Division at Mechel Mining Management (eleven employees), a Department of Wire Products Technology Development at Mechel-Steel Management (two employees), and a Department of Technical Development at Mechel Ferroalloys Management (two employees). In December 2008, we established Mechel Engineering with a headcount of 89 employees to carry out design and engineering works to increase the efficiency of our mining business. In January 2009, our design unit DVNPU with a headcount of 109 employees was transferred under the management of Mechel Engineering.

Table of Contents

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, Izhstal, Urals Stampings Plant, Mechel Targoviste and Yakutugol have specialized research divisions with a total of 482 researchers involved in the improvement of existing technologies and products.

Our research and development expenses in the years ending December 31, 2009, 2008 and 2007 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: legal liability for pollution, third-party liability motor vehicle insurance, and other forms of insurance. Some of our facilities provide their workers with medical insurance and accident and health insurance in accordance with existing collective employment agreements. In addition, some 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.

Regulatory Matters

Licensing of Operations in Russia

We are required to obtain numerous licenses, authorizations and permits from Russian governmental authorities for our operations. The Federal Law On Licensing of Certain Types of Activities, dated August 8, 2001, as amended, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licenses. In particular, some of our companies need to obtain licenses, authorizations and permits to carry out their activities, including, among other things:

- the use of subsoil, which is described in more detail in Subsoil licensing below;
- the use of water resources;
- the discharge of pollutants into the environment;
- the handling of hazardous waste;
- storage and use of explosive, flammable and/or dangerous materials;
- operation of industrial facilities featuring fire and explosion hazard (including mining and surveying activities);

construction;

fire control and security;

medical operations; and

transportation activities.

Table of Contents

These licenses and permits are usually issued for a period of five years and may be extended upon application by the licensee. Licenses for the use of natural resources may be issued for shorter or longer 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 production 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. Additionally, 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, as well as the right (through ownership, lease or other right) to use the land 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 production of mineral resources. The Procedure for Subsoil Use Licensing, adopted by Resolution of the Supreme Soviet of the Russian Federation on July 15, 1992, as amended (the **Licensing Regulation**), also regulates the exploration and production 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) a production 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.

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 minerals extraction tax under the 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. The minerals extraction tax is calculated as a percentage of the value of minerals extracted. Currently the tax rates are 4% for coal, 4.8% for iron ore and 8% for nickel. In 2009, we incurred minerals extraction taxes in the amount of $27.6 million, which is included in the statement of income and comprehensive income as production related overheads. See note 22 to our consolidated financial statements.

Table of Contents

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, production licenses a maximum term of 20 years, and combined exploration, assessment and production 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), a production 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 production licenses can be issued for the term of 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 Russian Federal Agency for Subsoil Use.

Issuance of licenses

Subsoil licenses are issued by the Federal Agency for Subsoil Use. Most of the currently existing production 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 production 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 a production license in order to complete the production 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 complies with 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 the federal authorities to amend the license.

The Order of the Ministry of Natural Resources No. 439-R, dated October 31, 2002, recommends that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license: (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.

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 renew necessary subsoil licenses and mining and other permits or fail to comply with the terms of our subsoil licenses 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

Table of Contents

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.

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 production commitments. For example, the licensee makes a production commitment to bring the field into production by a certain date and to extract an agreed-upon volume of natural resources each year. The license 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 production 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.

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 re-issue 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 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 January 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. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Certain of our Russian subsidiaries are required to either purchase or lease the land on which they operate.

Our mining subsidiaries generally have a right of perpetual use of their plots or have entered into long-term lease agreements. 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.

In 2008-2010, Ministry of Natural Resources and Ecology prepared 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 and it is not clear when and whether the amendments will be promulgated into law. According to the amendments, the 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. 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, 2012, and may be increased by one hundred times the current amounts commencing on January 1, 2016. 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 of 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 Rostekhnadzor, depending on the type and scale of any environmental impact. Such approval is conditional upon the development by the company of a plan for the reduction of the emissions or disposals to the standard limits which must be cleared with Rostekhnadzor. 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 statutory limits, a new emission reduction plan must be submitted to Rostekhnadzor for approval.

Table of Contents

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 assessed 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 2009, in Russia, we incurred above-norms/above-limit fees and penalties in the amount of approximately $3.4 million.

Ecological expert examination

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

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 dangerous wastes, are subject to ecological expert examination.

Examination of documentation related to capital construction is regulated under the Urban Development Code. The Urban Development Code provides for governmental inspection to verify the compliance of project documentation with relevant technical regulations, including sanitary-epidemiological and environmental regulations, requirements for the protection of objects of cultural heritage, as well as fire, industrial, nuclear, radiation 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, the Federal Service for the Supervision of the Use of Natural Resources, Rostekhnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency for Subsoil Use, the Federal Agency for Forestry and the Federal Agency for Water Resources. 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. In particular, the Ministry of Natural Resources was transformed into the Ministry of Natural Resources and Ecology and Rostekhnadzor is now under its supervision. For these reasons, the environmental enforcement authorities have now been redistributed among federal bodies and federal central and regional executive bodies.

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

Table of Contents

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.

Environmental programs

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.

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. As of November 2007, 175 states (including Russia) and regional economic integration organizations (such as the European Union) had ratified the Kyoto Protocol. We do not currently anticipate that the implementation of the Kyoto Protocol will have a material impact on our business beyond our plants in Bulgaria and Romania. All E.U. countries, including Bulgaria and Romania, are accepting national plans for allocation of greenhouse gas emission quotas starting from 2008. Toplofikatsia Rousse, located in Bulgaria, and our three Romanian companies are also obtaining greenhouse gas emission quotas for the 2008-2012 period. According to our production program, both surpluses within quota and quota overruns may occur. Quota overruns will result in a requirement to acquire emission reduction units under the E.U. Greenhouse Gas Emission Trading Scheme.

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 Dangerous Industrial Facilities, dated July 21, 1997, as amended (the **Safety Law**). The Safety Law applies, in particular, to industrial 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.

Table of Contents

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.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia of December 30, 2001, effective February 1, 2002, 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. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programs, create systems to cope with and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial 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 dangerous industrial 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 industrial facility where the accident took place bears all costs of an investigation. Rostekhnadzor officials have the right to access industrial sites and may inspect documents to ensure a company s compliance with safety rules. Rostekhnadzor may suspend or 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 joint-stock company (or one-third of the interests in a 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 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 if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group), if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group 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**);

Table of Contents

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 3 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 6 billion rubles, or if one of these entities is included in the Monopoly Register; and

founding of an 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 bulletpoint 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.

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.

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.

The Strategic Industries Law

On April 29, 2008, the Strategic Industries Law was adopted in Russia. It 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

Table of Contents

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 List of subsoil plots of federal importance was 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 as well as the use of sources of radioactivity are also deemed to be activities 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 production 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 10% or more of the voting shares of the Subsoil Strategic Company or holds the right to appoint its sole executive officer and/or 10% or more of its management board or has the unconditional right to elect 10% or more of its board of directors.

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

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

Table of Contents

authority. See Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments.

Employment and Labor Regulations in Russia

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

Employment contracts

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

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

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code, including but not limited to:

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.

Salary

The minimum monthly salary in Russia, as established by federal law, is 4,330 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

Table of Contents

of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

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

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

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term, except where a company is liquidated or the employer is otherwise entitled to dismiss the employee; and
- provision of necessary equipment, premises and vehicles by the employer for use by the trade union free of charge, if provided for by a collective 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

Table of Contents

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, 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).

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, Urals and 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 (the **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; and

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.

The infrastructure of the wholesale market is operated by the Non-commercial 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 MRSK, 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 Federal Tariff Service (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. Under Government Resolution No. 205 dated April 7, 2007, the volumes of electricity to be traded under regulated contracts are to gradually decline for the wholesale market to become fully liberalized by the year 2011. The volumes of electricity to be traded under regulated contracts

Table of Contents

in 2010 are set at 35% to 40% for the first half of 2010 and at 15% to 20% for the remainder of 2010. Starting from January 1, 2011, electricity is to be traded at non-regulated prices.

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 set by the respective regional authorities subject to the minimum and maximum levels defined by the FTS. These levels are calculated under a formula based on the average weighted target price of one unit of electric power (1 kWh) on the wholesale market (published annually by the TSA). The formula also takes account of the regulated prices for power transmission services, for services provided by the TSA and the higher prices paid by retail customers.

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, Mezhdurechensk and Myski.

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, mold, 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.

Table of Contents

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 would 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.

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.

Table of Contents

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 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. In addition, the DEP has increasingly required that reclamation bonds be posted in the form of certificates of deposit or other cash-backed securities. 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, 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 in recent 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 and the recently proposed S-MINER Act. Some of the new obligations include, for example, improved technologies and safety practices, tracking and communication, emergency response plans and equipment. 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-fueled 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

Table of Contents

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 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 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 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 contribute to downwind states nonattainment of NAAQS. 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, which resulted ultimately in it being vacated by a federal appeal court. It is currently unclear how EPA will modify the CAIR in response. The existing CAIR, however, is generally expected to require many coal-fueled power plants to install additional pollution control equipment or to incur other costs, and further changes to the CAIR rules may increase these burdens. 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-fueled 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 recently vacated during litigation, and EPA has announced plans for a new rule. Separate state standards may also be passed. Regardless of whether these or other measures are implemented,

rules imposing stricter limitations on mercury emissions from power plants may adversely affect the demand for coal.

Table of Contents

Regional haze. 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. These limitations could affect the future market for coal.

Climate change

A major by-product of burning coal is carbon dioxide, which is considered a greenhouse gas and generally a source of concern in connection with global warming and climate change. Regulation of greenhouse gases in the United States is currently subject to complicated domestic and international political, policy and economic pressures. As climate change issues become more prevalent, the U.S. and other governments are seeking to respond to these concerns.

For example, in 2007 the United States Supreme Court confirmed that EPA has authority to classify carbon dioxide and other greenhouse gases as pollutants and regulate them under the CAA. On December 15, 2009, EPA issued an endangerment finding that carbon dioxide and five other greenhouse gases endanger the public health and welfare. Together with other proposed rules, this could establish a basis for direct regulation of greenhouse gas emissions from many sources, including coal-fueled power plants. In addition, on October 30, 2009, EPA published a final rule on greenhouse gas emissions reporting, which would cover a wide range of sources including electricity generation. Although coal mines were excluded from this mandatory reporting obligation in the final rule, EPA had originally proposed to include such upstream sources in the regulation and has indicated that it will be revisiting that proposal in 2010. On the legislative side, the proposed federal Clean Energy and Security Act of 2009 was recently introduced in the U.S. Congress that would require national reductions in greenhouse gas emissions and would require utilities to generate a certain percentage of their electricity supply from renewable sources. A number of state and regional greenhouse gas initiatives are also being developed.

This increasing governmental focus on global warming could result in new environmental regulations that may negatively affect us and our customers. Future regulation of greenhouse gases in the United States could occur pursuant to future U.S. treaty obligations, regulatory changes under the CAA or other existing legislation, federal, state or regional adoption of greenhouse gas regulatory schemes, or any combination of the foregoing or otherwise. This could cause us to incur additional direct costs in complying with any new regulations, as well as increased indirect costs resulting from our customers incurring additional compliance costs and potentially reducing their consumption of coal. These costs may materially 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 eliminating the discharge of pollutants into surface waters. These programs include the National Pollutant Discharge Elimination System permit program (**NPDES**), 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 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 (**SPCC**) Plans, and certain high-volume hazardous substance handling/storage facilities are required to prepare and maintain a more extensive plan called a Facility Response Plan.

Table of Contents

EPA has 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.

Coal companies are required to obtain CWA 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 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, very few 404 Permits have been issued. It is widely expected that some pending 404 Permit applications will be denied, or that EPA will exercise its Clean Water Act veto authority over some 404 Permits that are issued by the Corps. Although the Company has no immediate need for new 404 Permits to continue its current mining operations in the short term, some of its 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.

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 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 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.

Table of Contents

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**), Toxic Substances Control Act (**TSCA**), the Emergency Planning and Community Right-to-Know Act (**EPCRA**), Occupational Safety and Health Act (**OSHA**), Endangered Species Act (**ESA**) and others.

EU REACH

On 1 June 2007, the European Union 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 European Union, as well as E.U. manufacturers producing such substances in quantities of one tonne or more per year, to register these substances with the European Chemicals Agency (**ECHA**). To comply with REACH requirements, we have created dedicated internal working groups, procured external consultants advice and budgeted for REACH procedures expenses. We pre-registered with the ECHA substantially all of the substances that we export to or produce in the European Union prior to December 1, 2008. Currently we are preparing for the next stage of the registration process. 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 25 to our consolidated financial statements.

History of Incorporation

Mechel OAO was incorporated on March 19, 2003, as a holding company for various mining and steel companies owned by Mr. Zyuzin, Mr. Iorich and companies controlled by them. These individuals acted in concert from 1995 until December 2006 pursuant to an Ownership, Control and Voting 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 Ownership, Control and Voting 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 (coking and steam) and iron ore, which supplies raw materials to our steel segment and also sells substantial amounts of raw materials to third

Table of Contents

parties, and includes logistical assets, such as our seaports on the Black Sea and the Pacific Ocean and our railway transportation assets;

the steel segment, comprising the production and sale of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products including wire products, forgings and stampings, as well as steel industry materials such as limestone, coke and coking products, and our river port in the Volga River watershed;

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.

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

Table of Contents

Name	Location of Assets	Product/Business	Date Control Acquired	Voting Interest[1] %
Mining Segment				
Southern Kuzbass Coal Company	Russia	Coking coal concentrate, steam coal, steam coal concentrate	January 1999	95.8%
Tomusinsk Open Pit Mine	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%
Transkol	Russia	Railway transportation	May 2007	100.0%
Yakutugol[2]	Russia	Coking coal, steam coal	October 2007	100.0%
Port Temryuk	Russia	Seaport: coal and metal transshipment	March 2008	100.0%
Port Vanino	Russia	Coal transshipment complex (under construction)	November 2008	100.0%
Mechel Bluestone Inc.	United States	Coking coal	May 2009	100.0%
Steel Segment				
Chelyabinsk Metallurgical Plant	Russia	Semi-finished steel products, carbon and specialty long and flat steel products, forgings, coke and coking 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, limestone	June 2002	91.4%
Mechel Targoviste	Romania	Carbon and specialty long steel products, forgings, seized rolled products	August 2002	86.6%
Urals Stampings Plant	Russia	Stampings	April 2003	93.8%
Mechel Campia Turzii	Romania	Long steel products, wire products	June 2003	86.6%
Mechel Nemunas	Lithuania	Wire products	October 2003	100.0%
Izhstal				