FEDEX CORP
Form 8-K
August 27, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 27, 2014

FedEx Corporation

(Exact name of registrant as specified in its charter)

Commission file number 1-15829

Delaware	**62-1721435**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**

942 South Shady Grove Road, Memphis, Tennessee **38120**
(Address of principal executive offices) **(ZIP Code)**
Registrant s telephone number, including area code: (901) 818-7500

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECTION 8. OTHER EVENTS.

Item 8.01. Other Events.

Attached as Exhibit 99.1 and incorporated herein by reference is a copy of the press release of FedEx Corporation, dated August 27, 2014, announcing that a federal appeals court has issued its decision in three FedEx Ground contractor cases.

SECTION 9. FINANCIAL STATEMENTS AND EXHIBITS.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description
99.1	Press Release of FedEx Corporation dated August 27, 2014, announcing that a federal appeals court has issued its decision in three FedEx Ground contractor cases.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	FedEx Corporation
Date: August 27, 2014	By: /s/ Christine P. Richards Christine P. Richards Executive Vice President, General Counsel and Secretary

EXHIBIT INDEX

Exhibit Number	Description
99.1	Press Release of FedEx Corporation dated August 27, 2014, announcing that a federal appeals court has issued its decision in three FedEx Ground contractor cases.

E-1

"bottom"> 367 0%

Mechel Nemunas

Lithuania Steel 321 31%

Toplofikatsia Rousse

Bulgaria Power 303 59%

Mechel Vtormet

Russia Scrap metal 278 0%

Port Temryuk

Russia Shipping 246 0%

Port Kambarka

Russia Shipping 224 0%

Pugachevsky Open Pit

Russia Limestone 183 53%

246

Table of Contents

Company	Primary Location	Primary Function	Total Employees	% Unionized
Bluestone	United States	Coal	173	25%
Kaslinsky Architectural Art Casting Plant	Russia	Steel	158	0%
SC Mechel Reparatii Targoviste SRL	Romania	Melting facility repair	141	83%
Shakhtspetsstroy	Russia	Capital construction	139	36%
Invicta Merchant Bar	United Kingdom	Steel	75	23%
Mechel Carbon	Switzerland, Belgium, Singapore	Sales and distribution	47	0%
Mechel Trading	Switzerland, Belgium, Liechtenstein	Sales and distribution	21	0%
Mechel Trading House	Russia	Sales and distribution	13	0%
Other (including all management companies)	Various	Various	4,689	5%
Total			90,465	60%

At December 31, 2011, we employed approximately 96,868 people as follows:

Company	Primary Location	Primary Function	Total Employees	% Unionized
Chelyabinsk Metallurgical Plant	Russia	Steel	15,612	68%
Southern Kuzbass Coal Company and subsidiaries (Tomusinsky Open Pit, Vzryvprom)	Russia	Coal	9,534	74%
Beloretsk Metallurgical Plant	Russia	Steel	6,885	81%
Izhstal	Russia	Steel	5,810	92%
Yakutugol, Dzhebariki-Khaya Underground, Kangalassky Open Pit, Neryungry Car Fleet	Russia	Coal	5,131	90%
Southern Urals Nickel Plant	Russia	Nickel	4,369	52%
Urals Stampings Plant (with branches)	Russia	Steel	4,259	68%
Mechel Service Global (including subsidiaries)	Russia	Sales and distribution	3,962	0%
Korshunov Mining Plant	Russia	Iron ore	3,526	82%
Donetsk Electrometallurgical Plant	Ukraine	Steel	3,183	68%
Mechel-Remservice	Russia	Ore mining equipment repair	2,944	77%
Spetsremzavod	Russia	Melting facility repair	2,384	68%
Mechel Targoviste	Romania	Steel	2,282	90%
Mechel Energo	Russia	Power	2,213	36%
Mechel Campia Turzii	Romania	Steel	1,906	93%
Mechel Coke	Russia	Coke	1,768	60%

Ductil Steel	Romania	Steel	1,490	90%
Mechel Materials	Russia	Steel	1,363	36%
Moscow Coke and Gas Plant	Russia	Coke	1,272	71%
Metallurgshakhtspetsstroy	Russia	Capital construction	1,180	0%
Management Metallurgical Equipment Repair	Russia	Melting facility repair	1,004	40%
Kuzbass Power Sales Company	Russia	Power	822	67%
Southern Kuzbass Power Plant	Russia	Power	792	39%

Table of Contents

Company	Primary Location	Primary Function	Total Employees	% Unionized
Tikhvin Ferroalloy Plant	Russia	Ferroalloys	771	0%
Bluestone	United States	Coal	742	43%
Mecheltrans (including subsidiaries)	Russia	Railway transportation	666	0%
Laminorul Plant	Romania	Steel	640	87%
Thermal Grid Company of Southern Kuzbass	Russia	Power	608	0%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	586	48%
Voskhod-Oriel, Voskhod-Chrome	Kazakhstan	Ferroalloys	511	80%
Shakhtspetsstroy	Russia	Capital construction	458	33%
Port Posiet	Russia	Shipping	436	7%
SC Mechel Reparatii Targoviste SRL	Romania	Melting facility repair	409	80%
Vyartsilya Metal Products Plant	Russia	Steel	391	0%
Mechel Engineering	Russia	Scientific research	366	0%
Toplofikatsia Rousse	Bulgaria	Power	344	58%
Mechel Nemunas	Lithuania	Steel	322	32%
Port Kambarka	Russia	Shipping	241	0%
Port Temryuk	Russia	Shipping	236	0%
Mechel Vtormet	Russia	Scrap metal	227	0%
Pugachevsky Open Pit	Russia	Limestone	181	64%
Kaslinsky Architectural Art Casting Plant	Russia	Steel	173	0%
Invicta Merchant Bar	United Kingdom	Steel	79	22%
Mechel Trading House	Russia	Sales and distribution	49	0%
Mechel Trading	Switzerland, Belgium, Liechtenstein	Sales and distribution	46	0%
Mechel Mining Trading House	Russia	Sales and distribution	30	0%
Mechel Carbon	Switzerland, Belgium	Sales and distribution	29	0%
Other (including all management companies)	Various	Various	4,636	2%
Total			96,868	61.5%

Set out below is information about membership of our employees in trade unions:

Employees of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant, Southern Urals Nickel Plant, Korshunov Mining Plant, Moscow Coke and Gas Plant, Mechel Coke, Izhstal, Bratsk Ferroalloy Plant, Mechel Materials and Pugachevsky Open Pit are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Urals Stampings Plant are members of the Trade Union of Machinists of the Russian Federation, employees of Chelyabinsk branch of Urals Stampings Plant are members of the Ore Mining and Smelting Trade Union of Russia.

Employees of Southern Kuzbass Coal Company and its subsidiaries Tomusinsky Open Pit, Vzryvprom and Shakhtspetsstroy are members of the Russian Independent Trade Union of Coal Industry Workers and of the Independent Trade Union of Miners of Russia.

Employees of Yakutugol are members of the Russian Independent Trade Union of Coal Industry Workers and the Social Organization Regional Amalgamated Trade Union of Mining Industry Workers of Yakutia, employees of its subsidiary Neryungry Car Fleet and Mechel-Remservice are members of the Russian Independent Trade Union of Coal Industry Workers.

Table of Contents

Employees of Mechel Energo are members of the Ore Mining and Smelting Trade Union of Russia and of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Port Posiet are members of the Russian Stevedores Trade Union.

Employees of Mecheltrans separate business unit in the city of Myski are members of the Independent Trade Union of Miners of Russia.

Employees of Southern Kuzbass Power Plant and Kuzbass Power Sales Company are members of the All-Russian Power Industry Trade Union.

Employees of Mechel Nemunas are members of the Trade Union Nemunas.

Employees of Bluestone companies are members of the UMWA.

Employees of Donetsk Electrometallurgical Plant are members of the Trade Union of Workers of Metallurgical and Mining Industry of Ukraine.

We consider our relationships with our employees to be good.

Item 7. ***Major Shareholders and Related Party Transactions***

The following table sets forth information regarding our major shareholders, which means shareholders that are the beneficial owners of 5% or more of our common shares, as of March 31, 2014, based on the information available to us:

Name of Beneficial Owner	Number of Common Shares	% of Common Shares
Igor V. Zyuzin[1]	280,669,025	67.42%
Other[2][3]	135,601,720	32.58%
Total	416,270,745	100%

(1) Mr. Zyuzin is the Chairman of our Board of Directors. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers. His business address is Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation. Further information regarding Mr. Zyuzin s shareholdings is available in the Schedule 13D filed by Mr. Zyuzin with the SEC.

(2)

According to Deutsche Bank Trust Company Americas, as of March 31, 2014, 91,151,675 common ADSs and 54,481,886 GDSs were outstanding, representing 34.99% of our total issued common shares.

(3) We believe our directors and executive officers as a group, other than Mr. Zyuzin, beneficially own less than 1% of our shares.

As of March 31, 2014, there were 91,151,675 common ADSs outstanding, all of which were held by one registered holder with an address in the United States. In February 2014, we commissioned a report on our shareholding structure from IPREO, according to which approximately 36.3% of our total issued common ADSs and 7.1% of our preferred ADSs were held by U.S. investors.

None of our common shareholders have voting rights which differ from any other holders of our common shares. Based on our share register, we believe we are not directly or indirectly owned or controlled by another corporation or government, and that there are no arrangements the operation of which may result in a change of control.

Mechel has 138,756,915 preferred shares of which 40% are held by Skyblock Limited, a wholly-owned subsidiary of Mechel, and the remaining 60% may be held by the Justice persons or are held by the public. The Justice persons acquired 60% of our preferred shares in connection with our acquisition of Bluestone. The Justice persons are residents of the United States. Based on our share register, we do not know the percentage ownership held by the Justice persons as of the date hereof.

Table of Contents

Related Party Transactions

In addition to the below, see note 9 to the consolidated financial statements.

Transactions with related metallurgical plants

In the second half of 2009, certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the **related metallurgical plants**) became related parties to us through our representation on the board of directors, management and other arrangements. In 2009, the companies that had business transactions with us were as follows: Volga Fest, Rostov Electrometallurgical Plant, Vostochnaya Mine, Experimental TES, Zlatoust Metallurgical Plant, Guryevsk Metallurgical Plant, Volgograd Small Diameter Pipe Plant (**VSDPP**) and Engels Pipe Plant. In addition, in 2010 we started transactions with Donetsk Electrometallurgical Plant, Invicta Merchant Bar, Metrus Trading GmbH, MIR Steel, Nytva and Estar Egypt for Industries. In 2011-2013, we continued our operations with the related metallurgical plants. These transactions were carried out in the joint interest of both parties in expanding our operations and products range on the steel market and allowing the related metallurgical plants access to our strong supply and sales network.

In August 2011, we acquired 100% of Invicta Merchant Bar, a steel plant located in Queenborough, the United Kingdom. In December 2011, we acquired Donetsk Electrometallurgical Plant.

During the years ended December 31, 2013, 2012 and 2011, we had the following transactions and current balances in settlement with the related metallurgical plants:

Re-selling of goods purchased by our group either from third parties or entities of the former Estar Group to the related metallurgical plants. Proceeds related to these sales amounted to $25.9 million, $222.8 million and $203.1 million in the years ended December 31, 2013, 2012 and 2011, respectively. For part of such transactions, we determined that we functioned as a principal, and the amounts of $14.3 million, $211.2 million and $187.8 million were included in revenue from sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively. In 2013, 2012 and 2011, these sales included $nil, $nil and $54.2 million, respectively, of goods produced by the related metallurgical plants and resold further to other entities of the former Estar Group.

For the other part of such transactions, we determined that our results should be recognized as operating gains. Therefore, they are reported, net of related costs, within other operating income (expenses), net in the consolidated statements of operations and comprehensive income (loss) in the amount of $1.5 million, $1.8 million and $2.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Revenues from sales of products manufactured by us and services rendered to the related metallurgical plants amounted to $154.7 million, $202.8 million and $209.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Cost of the related metallurgical plants products used in our production amounted to $100.2 million, $105.0 million and $283.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Cost of goods produced by the related metallurgical plants and further sold by us to third party customers amounted to $513.2 million, $769.2 million and $1,221.4 million, including transportation costs, for the years ended December 31, 2013, 2012 and 2011, respectively. For such transactions, we determined that we functioned as a principal, and the amounts of $570.5 million, $847.7 million and $1,293.5 million were included in revenue from the sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively.

Table of Contents

The related metallurgical plants used raw materials and semi-finished goods purchased from us. We concluded that our sales to the related metallurgical plants and our purchases from these entities were not in contemplation with each other and are reported separately in the consolidated statements of operations and comprehensive income (loss).

In the second half of 2011, our operations with certain related metallurgical plants (namely VSDPP, Engels Pipe Plant and MIR Steel) started to be carried out on tolling terms. In 2013, such operation started with other related metallurgical plants (namely Zlatoust Metallurgical Plant, Guryevsk Metallurgical Plant and Nytva). Revenues from sales of products (steel pipes, basis steel coils and sheets, long steel) manufactured by the related metallurgical plants for us under the tolling agreements amounted to $331.4 million, $413.1 million and $274.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. The related cost of goods sold for these transactions amounted to $334.0 million, $403.5 million and $262.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. This cost includes cost of tolling services provided by the related metallurgical plants of $57.3 million, $47.4 million and $35.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

In November 2011, we and the Estar Group entered into the Estar Loan Agreement pursuant to which we granted a loan of $944.5 million. The loan consists of several tranches which bear interest at the range of 1-8.5% per annum. To secure the loan, shares in the major related metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the related metallurgical plants to repay most of the accounts receivable owed to us. According to the Estar Loan Agreement, in the event that the loan is not repaid at maturity (September 30, 2012), we are entitled to enforce the pledge over the pledged related metallurgical plants assets and thereby take control of these assets, subject to approval from the FAS.

In September 2012, we extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of $213.4 million. To make this repayment the Estar Group used the proceeds received by them from our group for the sale of Cognor Stahlhandel (see note 3(a) to the consolidated financial statements) and proceeds under a security deposit, described further below.

As of December 31, 2012, the loan balance amounted to $896.4 million, out of which $15.4 million represents interest accrued on the extended loan. The interest accrued on the loan amount before the extension was repaid in full. During the year ended December 31, 2013, $5.0 million were repaid and the Estar Group returned the security deposit paid by us in the end of 2012 for the acquisition of some assets pledged under the Estar Loan Agreement. As the repayment was not effected in time we initiated legal proceedings against the borrower and sureties.

We evaluate the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2013 and December 31, 2012, was $nil. This resulted in an $888.0 million and $896.4 million provision for amounts due from related parties under the Estar Loan Agreement as of December 31, 2013 and December 31, 2012, respectively. We have not taken possession of assets provided as collateral because these entities are burdened with a substantial amount of debt.

Based on the combined design of the above mentioned loan and trading agreements, we have determined that the related metallurgical plants are Variable Interest Entities (**VIEs**), and that we are not the primary beneficiary of the related metallurgical plants. We are limited in our exposure to risks by the net amounts receivable from the related metallurgical plants.

Table of Contents

During the years ended December 31, 2013, 2012 and 2011, we had the following transactions and current balances in settlement with the related metallurgical plants:

	2013	2012	2011
	(In thousands of U.S. dollars)		
Revenues			
Steel segment products sales	99,580	339,840	314,297
Ferroalloy segment products sales	4,245	7,098	14,142
Mining segment products sales	1,956	3,981	4,315
Other revenues[(1)]	63,175	63,039	64,295
Total revenues	168,956	413,958	397,049
Costs and expenses			
Cost of goods for resale, production and operating expenses	588,755	842,253	1,528,053
Transportation expenses	24,609	31,693	27,573
Other expenses		189	128
Provision for amounts due from the related metallurgical plants	517,724	919,113	
Total expenses	1,131,088	1,793,248	1,555,754

(1) Including power segment sales and services provided to the related metallurgical plants by all segment companies.

	December 31,	
	2013	2012
	(In thousands of U.S. dollars)	
Assets		
Trade accounts receivable	14,528	65,474
Prepayments and other current assets	15,949	188,131
Total assets	30,477	253,605
Liabilities		
Trade accounts payable	74,384	147,050
Advanced received and other payables	1,043	21,921
Long-term payables	21	
Loans received		19,653
Total liabilities	75,448	188,624

As of December 31, 2013 and 2012, the amounts of trade accounts receivable and prepayments and other current assets were reduced by $544.5 million and $176.4 million, respectively, of allowance for doubtful accounts. The

allowance for doubtful accounts was recognized based on our estimates of future cash inflows from these balances. The amounts receivable fully covered by the allowance included amounts receivable of $470.8 million described below. In December 2013, we, Calridge Ltd. (a shareholder in Mechel OAO, an entity wholly owned by the controlling shareholder) and the related metallurgical plants signed an assignment agreement. Under that agreement, we assigned to Calridge Ltd. the right to collect amounts due from the related metallurgical plants with the nominal value of $470.8 million, and Calridge Ltd. is to repay this amount, and interest at a rate of 1.75% per annum, to us within 3 years from the agreement date.

Inventories in stock purchased from these entities amounted to $38.4 million and $105.3 million as of December 31, 2013 and 2012, respectively.

252

Table of Contents

Transactions with Metallurg-Trust

In 2010, we started transactions with a trading company Metallurg-Trust OOO (**Metallurg-Trust**), a party which can be significantly influenced by us through business relationships. Metallurg-Trust is mostly involved in reselling the goods produced by the Russian related metallurgical plants on the domestic market and supplying raw materials and semi-finished goods. During the years ended December 31, 2013, 2012 and 2011, we sold to Metallurg-Trust $61.1 million, $316.0 million and $423.0 million, respectively, of pig iron, semi-finished goods, coal and chrome produced by our entities for further supply to the Russian related metallurgical plants. As of December 31, 2013 and 2012, we had receivables from Metallurg-Trust in the amount of $190.4 million and $155.6 million, respectively. We provided to Metallurg-Trust the extended credit terms varying from 30 to 180 days. Metallurg-Trust stopped paying us for the steel products delivered to it in the second half of 2013. We made a decision to stop supplies to Metallurg-Trust since July 2013 and record a special allowance on the outstanding receivables. As of December 31, 2013, an allowance of $190.4 million was recorded against the amount of trade receivables based on our expectation of future cash inflows.

Our sales to Metallurg-Trust in the amount of $0.5 million, $4.0 million and $nil were presented net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2012, the amount of accounts payable to the related metallurgical plants and Metallurg-Trust included liabilities under the amicable agreement between Lomprom Rostov and other related and third parties. This agreement was signed in April 2010 under the following conditions: the repayment of debt is scheduled to be made on monthly equal installments after 3 years grace period through March 2017. As of December 31, 2012, the nominal value of debt to the related metallurgical plants and Metallurg-Trust was $26.9 million and $1.0 million, respectively. The present value of debt to the related metallurgical plants and Metallurg-Trust was $21.0 million and $0.8 million, respectively. The present value of debt was determined using a 12.2% discount rate. As of December 31, 2012, amounts of liabilities at present value were reflected as liabilities of discontinued operations in the consolidated balance sheet.

See also Item 3. Key Information Risk Factors Risks Relating to our Financial Condition and Financial Reporting Any material change in our commercial dealings with, non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have a material adverse effect on our business, results of operations and financial condition.

Transactions with the Controlling Shareholder

During the year ended December 31, 2013, the common shares of Port Vanino were partly sold to our related parties: Mr. Zyuzin, our controlling shareholder, and Calridge Ltd., a company wholly owned by Mr. Zyuzin. Mr. Zyuzin acquired approximately 0.9% of the total common shares (0.67% of the total shares) and Calridge Ltd. acquired approximately 0.6% of the total common shares (0.45% of the total shares) for $5.95 million and $3.97 million, respectively.

In November 2013, we purchased 1.310109% of Mechel Mining from Mr. Zyuzin for $58.0 million in cash. The transaction resulted in our owning 99.999995% of Mechel Mining as of December 31, 2013.

Item 8. ***Financial Information***

See Item 18. Financial Statements.

Litigation

Other than the legal proceedings described below, we are not involved in any legal proceedings that we believe to be material.

253

Table of Contents

Tax

On September 12, 2011, Korshunov Mining Plant received an assessment from the tax authorities for the 2008-2009 period in a total amount of 160.9 million rubles, including 120.5 million rubles assessed in connection with transfer pricing. On September 20, 2011, we contested this assessment in the amount of 154.5 million rubles with the higher-level tax authorities. On March 2, 2012, the higher-level tax authorities upheld the assessment of the tax authorities and on March 22, 2012 Korshunov Mining Plant filed a claim to invalidate the assessment in the amount of 154.5 million rubles with the Moscow Arbitrazh Court. On August 16, 2012, the Moscow Arbitrazh Court supported our claims in part of 20.5 million rubles, including penalties and fines, and the remaining claims were denied. On November 6, 2012, the Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court. On March 5, 2013, the Federal Arbitrazh Court of Moscow District also upheld the decision of lower courts. On May 29, 2013, Korshunov Mining Plant filed for supervisory review of the decision with the Supreme Arbitrazh Court. On July 31, 2013, the Supreme Arbitrazh Court denied to transfer the case to the Presidium of the Supreme Arbitrazh Court of the Russian Federation. Tax liabilities have been repaid in full on the date of entry into force of the decision of the tax authority.

On January 16, 2012, Mechel Trading House received an assessment from the tax authorities for income tax, interest and incurred penalties in a total amount of 5.9 billion rubles for the 2008-2009 period. We contested this assessment through the administrative procedure with the higher-level tax authorities which reduced the assessment to 5.4 billion rubles. On June 5, 2012, Mechel Trading House filed a claim with the Moscow Arbitrazh Court to contest the amount of 5.4 billion rubles. On January 9, 2014, the Moscow Arbitrazh Court sustained the Mechel Trading House claims in part of 1.6 billion rubles, including penalties and fines, and the remaining claims were denied. Mechel Trading House does not intend to appeal the decision.

In June 2012, Chelyabinsk Metallurgical Plant received an assessment from the tax authorities for income tax, interest and incurred penalties in a total amount of 315.2 million rubles for the year 2007. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities reduced the assessment to 104.6 million rubles. On January 18, 2013, Chelyabinsk Metallurgical Plant filed a claim with the Moscow Arbitrazh Court to contest the amount of 104.6 million rubles. The court proceedings have been suspended due to pending hearings with the Supreme Arbitrazh Court on a similar case.

On August 23, 2012, Yakutugol received an assessment from the tax authorities for mineral extraction tax, income tax, transport tax, interest and incurred penalties in a total amount of 466.7 million rubles for the 2009-2010 period. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities dismissed the appeal. On November 30, 2012, Yakutugol filed a claim with the Arbitrazh Court of the Sakha Republic (Yakutia) to contest the amount of 466.7 million rubles. On February 28, 2013, the Arbitrazh Court of the Sakha Republic (Yakutia) supported our claims in part of 55.0 million rubles, and the remaining claims were denied. On April 10, 2013, Yakutugol filed an appeal on the decision with respect to the remaining amount to the higher court. On July 22, 2013, the Fourth Arbitrazh Court of Appeal reversed the decision of the Arbitrazh Court of the Sakha Republic (Yakutia) in part of 55.0 million rubles and dismissed the appeal. On September 23, 2013, the Federal Arbitrazh Court of East Siberian District upheld the decision of lower courts. Tax liabilities have been repaid in full on the date of entry into force of the decision of the tax authority.

On April 12, 2013, Tomusinsky Open Pit received an assessment from the tax authorities for the 2009-2010 period for income tax, VAT, mineral extraction tax, interest and incurred penalties in a total amount of 1,580.6 million rubles, including approximately 1,500.0 million rubles assessed in connection with transfer pricing. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities dismissed the appeal. On July 10, 2013, Tomusinsky Open Pit filed a claim with the Arbitrazh Court of Kemerovo region to contest the decision of the

tax authorities. On December 16, 2013, the Arbitrazh Court of Kemerovo region supported our claims in part of 80.0 million rubles, and the remaining claims were denied. On January 29, 2014, Tomusinsky Open Pit filed an appeal on the decision of the Arbitrazh Court of Kemerovo region. The court hearing is scheduled for May 14, 2014.

We believe that we have paid or accrued all taxes that are applicable. Where uncertainty exists, we have accrued tax liabilities based on management s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with FASB ASC 450, Contingencies (**ASC 450**), we accrued $16.8 million of other tax claims that management believes are probable as of December 31, 2013. In addition, income tax accrual was made under ASC 740. See note 19 to the consolidated financial statements.

Antimonopoly

In the summer of 2008, in the course of a regulatory inquiry into business practices in the Russian market for certain grades of coking coal concentrate, the FAS initiated an antimonopoly investigation into the business of our subsidiaries Mechel Trading House, Southern Kuzbass Coal Company, Yakutugol and Mechel Trading on allegations of abuse of their dominant position in the Russian market for certain grades of coking coal concentrate. As a result of the investigation, in August 2008 the FAS issued findings according to which these subsidiaries were held to have violated Russian antimonopoly law by abusing their dominant position in the Russian market for certain grades of coking coal concentrate. Upon completion of investigation, the FAS issued a directive prohibiting these entities from abusing their dominant position and ordering certain action to restore competition. In particular, the FAS ordered these entities and their successors to refrain from taking any action in the Russian market for certain grades of coking coal concentrate which would or may preclude, limit or eliminate competition and/or violate third parties interests, including fixing and maintaining a monopolistically high or low price, refusing or avoiding to enter into an agreement with certain buyers without good economic or technological reasons where the production or supply of the relevant grades of coking coal concentrate is possible and creating discriminatory conditions for buyers. Under Russian law, a discriminatory condition means a condition of entering the market or a condition of production, exchange, consumption, acquisition, sale or other transfer of goods under which a person or group of persons find themselves in a disadvantageous position as compared to another person or group of persons. The FAS considered our exports of certain grades of coking coal concentrate, in a situation where the Russian buyers requirements were not being satisfied and the terms and conditions of the export sales contracts differed from domestic sales contracts, to be a discriminatory condition for Russian buyers. Thus, the FAS s directive not to create discriminatory conditions for buyers means that we must satisfy the requirements of Russian buyers on a priority basis. We fulfilled all terms set forth in the FAS directive and intend to continue to comply with them in the future.

Furthermore, as a result of the antimonopoly investigation, 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 is equal to approximately 5% of these subsidiaries total sales of coking coal concentrate for 2007. The companies were granted a deferral of the payment of the fines in accordance with the law. All fines have been paid in full.

In September 2013, the FAS found the Administration of the Kemerovo region, Russian Railways and 16 largest freight railway operators, including Mecheltrans, to have violated the Competition Law by entering into an agreement that led or could have led to the division of the commodity market on a territorial principle, in volume of sale of goods and composition of customers of goods, as well as to limiting access to the commodity market for entities or their elimination from it. Mecheltrans is fined by the FAS in the amount of 19.3 million rubles. Mecheltrans filed a claim with the Moscow Arbitrazh Court to appeal this decision. The preliminary court hearing is scheduled for May 26, 2014.

In December 2013, the Office of the FAS in the Kemerovo region found Kuzbass Power Sales Company to have violated the Competition Law by unreasonable additional charge for electricity supply services. The case on an administrative violation is opened with respect to Kuzbass Power Sales Company. Kuzbass Power Sales Company filed a claim with the Arbitrazh Court of Kemerovo region to appeal the decision and the directive issued by the

Office of the FAS in the Kemerovo region. The court hearing is scheduled for May 26, 2014.

255

Environmental and safety

Pursuant to a claim of the Novokuznetsk Environmental Prosecutor s Office against Southern Kuzbass Power Plant concerning the discharge of pollutants into the atmosphere above the maximum allowable level, the court ruled in September 2008 that we must limit the discharge of pollutants into the atmosphere to comply with the maximum allowable level. We have complied with the ruling effective as of November 2009. The court also mandated us to reconstruct the de-dusting system. We applied several times for stay of execution and the court allowed us to stay execution of this mandate until August 1, 2011. In April 2012, we applied for another stay of execution which was rejected by the court. We are in the process of reconstruction and replacement of the dust and gas scrubber equipment. We completed the reconstruction of one of the boilers and have commenced the reconstruction of another boiler. In June 2013, we applied for another stay of execution and the court allowed us to stay execution until February 28, 2014. We reapplied for stay of execution in April 2014.

On February 27, 2012, Rostekhnadzor imposed a temporary ban on operations at Olzherasskaya-Novaya Underground s longwall due to a spontaneous ignition of coal in a mined-out section of a longwall working area at the mine. On March 1, 2012, the fire area was sealed. On March 5, 2012, upon Rostekhnadzor s application, the court rendered a decision to suspend operations at the mine s longwall for 30 days. We implemented a set of measures to extinguish the fire. In June 2013, mining operations recommenced in the area impacted by the fire.

On September 9, 2013, Rostekhnadzor imposed a temporary ban on operations at V.I. Lenina Underground s longwall due to equipment malfunction resulting in a violation of coal reserves mining technology at the longwall. On September 11, 2013, upon Rostekhnadzor s application, the court ruled to suspend operations at the mine s longwall for 30 days. We rectified part of the identified violations. On October 10, 2013, during follow-up inspection, Rostekhnadzor imposed a new temporary ban on operations at the longwall. On October 14, 2013, the court ruled to suspend operations at the mine s longwall for 60 days. We rectified all of the identified violations. On October 25, 2013, the court ruled to cancel the suspension of operations and we recommenced operations at the V.I. Lenina Underground s longwall.

On June 11, 2013, the Department of Rosprirodnadzor for the Republic of Bashkortostan filed a lawsuit against Beloretsk Metallurgical Plant with the Arbitrazh Court of the Republic of Bashkortostan seeking the recovery of damages caused to water resources as a result of noncompliance with water legislation in the amount of 408.2 million rubles. During the court hearings claims under the lawsuit were reduced to 398.6 million rubles. On October 3, 2013, the Arbitrazh Court of the Republic of Bashkortostan rendered a decision to collect from Beloretsk Metallurgical Plant the amount of damages in the amount of 398.6 million rubles. We contested this decision with the Eighteenth Arbitrazh Court of Appeal. On January 28, 2014, the court upheld the decision of the lower court. On February 7, 2014, Beloretsk Metallurgical Plant filed a cassation appeal with the Federal Arbitrazh Court of Ural District. At the court hearing held on April 14, 2014 Beloretsk Metallurgical Plant withdrew its cassation appeal. The parties intend to settle their claims out of court.

In 2008, Pinnacle Mining Company (**Pinnacle**) filed a suit against the Bluestone companies and a third-party engineering firm in the U.S. District Court for the Southern District of Beckley, West Virginia. Pinnacle asserts claims against the defendants for negligence, strict liability, violation of the federal Surface Mining Control and Reclamation Act, and injunctive relief. The case arises from mining activity conducted by Bluestone companies in the safety zone of a coal slurry impoundment maintained by Pinnacle. The parties filed a joint motion to stay, and the court granted the stay, which has allowed additional time for the regulatory agencies involved to determine what steps are necessary for remediation. A plan has been submitted by the defendants and was approved by the WVDEP. We have completed the installation of pumps to dewater the mine in accordance with the plan and provided Pinnacle with access to online data about mine water levels available in real time regime 24/7. At present, we have unresolved issue regarding

Pinnacle s access to the underground part of the mine. Our position is that, unlike the surface area of the mine, the underground part of the mine should not be available for anytime inspection by Pinnacle since the area was sealed due to safety reasons. We are currently trying to resolve this issue with the WVDEP. We are defending the matter and have asserted issues of comparative fault by the plaintiff and our engineering company at the time of the incident in November 2007.

256

Table of Contents

We have full indemnity on this claim from the previous owner of Bluestone in accordance with the terms of the acquisition agreement, however, there is no assurance that the previous owner of Bluestone will not contest our requests for indemnification.

Commercial litigation

In December 2013, Mechel Mining and Bluestone jointly filed a lawsuit against Weir, the engineering firm that calculated the results of drilling program conducted by the former owner of Bluestone, in the Federal District Court for the Southern District of West Virginia. The suit seeks a declaration that Weir s calculation of the resources identified by the drilling program fails the requirements of the JORC Code Guidelines as well as other requirements agreed upon by the former owner of Bluestone. The suit also seeks damages from Weir for failing to act in accordance with the duties it owed to Mechel, and to award damages from Weir for any and all of the amount Mechel Mining and Bluestone ultimately must pay the former owner in excess of the contingent payment they would have made if Weir had certified the results of the drilling program in accordance with the JORC Code Guidelines, professional standards, and its obligations to Mechel. The trial date has not been scheduled.

In January 2014, Mechel Mining and Bluestone jointly filed a lawsuit against the former owners of Bluestone in the Court of Chancery of the State of Delaware seeking a declaration that the former owners of Bluestone had failed to satisfy the requirements for certifying the contingent reserves upon which the contingent cash consideration for the sale was to be based. Under the stock purchase and sale agreement, the additional coal reserves and resources identified in the post-closing drilling program were to be certified in accordance with JORC Code Guidelines and other requirements of the agreement, and they were not. The suit seeks a further declaration that, as a result of such failures, Mechel Mining and Bluestone do not owe any contingent payment, or, in the alternative owes an amount to be calculated based upon a proper certification of contingent reserves to be prepared by a different mining engineering firm. The trial date has not been scheduled.

On February 3, 2014, Novatek Chelyabinsk OOO filed a claim against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region to recover debt for gas supplied in December 2013 and penalty for delay in payment in a total amount of 615.4 million rubles. The court hearing is scheduled for May 29, 2014.

Russian securities litigation

In March 2012, the Swiss company Bank Julius Baer and Co. Ltd. (**Bank Julius Baer**) filed a claim against Tomusinsky Open Pit with the Arbitrazh Court of Kemerovo region seeking invalidation of the decisions of the board of directors of Tomusinsky Open Pit to convene the extraordinary shareholders meeting, to approve the draft resolution of the extraordinary shareholders meeting and to determine the placement price per each common share, as well as the decision of the extraordinary shareholders meeting to increase the charter capital by more than 25% by issuing additional common shares in the amount of 13.3 thousand with nominal value one ruble per each share. Bank Julius Baer owns common and preferred shares of Tomusinsky Open Pit, which in total amounted to 22.95% of its charter capital at the time of filing the claim. The plaintiff argues that the increase in the charter capital of Tomusinsky Open Pit is unreasonable given that Tomusinsky Open Pit has available funds and the additional share issue would lead to dilution of its minority share in Tomusinsky Open Pit. In addition, Bank Julius Baer challenges the placement price per each common share set by the board of directors of Tomusinsky Open Pit on the basis that it was set below the market price. On March 14, 2012, the court adopted the interim measures and prohibited further issue and placement of additional common shares of Tomusinsky Open Pit, until the dispute is finally resolved. The court requested for expert evaluation of Tomusinsky Open Pit shares by independent appraiser which was completed on December 3, 2012. On February 13, 2013, we filed a petition for re-examination of evaluation of Tomusinsky Open Pit shares, which was rejected by the court. On March 5, 2013, the court invalidated the decisions of the board of

directors of Tomusinsky Open Pit to approve the draft resolution of the extraordinary shareholders meeting and to determine the placement price per each common share, as well as the decision of the extraordinary shareholders meeting to increase the charter capital of Tomusinsky Open Pit. On April 4, 2013, Tomusinsky Open Pit filed an appeal on this decision to the higher court. On May 30, 2013, the Seventh Arbitrazh Court of Appeal

257

dismissed the appeal. On June 6, 2013, Tomusinsky Open Pit filed a cassation appeal with the Federal Arbitrazh Court of Ural District. On September 10, 2013, the court dismissed the cassation appeal. On December 16, 2013, Tomusinsky Open Pit filed for supervisory review of the decision with the Supreme Arbitrazh Court. On December 26, 2013, the Supreme Arbitrazh Court denied to transfer the case to the Presidium of the Supreme Arbitrazh Court of the Russian Federation.

On August 9, 2013, SAVEN ENTERPRISES LTD. (**SAVEN**) filed a claim against Tomusinsky Open Pit with the Arbitrazh Court of Kemerovo region seeking invalidation of the decision of the board of directors of Tomusinsky Open Pit regarding the recommendation not to accrue and not to pay dividends on shares of Tomusinsky Open Pit for the fiscal year 2012 and the decision of the annual general shareholders meeting on the relevant issues. SAVEN owns common and preferred shares of Tomusinsky Open Pit, which in total amount to 12.77% of its charter capital. On February 21, 2014, the Arbitrazh Court of Kemerovo region sustained the claim in full. On March 28, 2014, Tomusinsky Open Pit filed an appeal with the Seventh Arbitrazh Court of Appeal. The court hearing is scheduled for May 22, 2014.

In June-August 2013, SAVEN filed 14 lawsuits against Tomusinsky Open Pit and our subsidiaries with the Arbitrazh Court of Kemerovo region seeking invalidation of loan transactions, application of the consequences of their invalidity in the form of loans repayment and interest recovery in a total amount of approximately 8.5 billion rubles. During the court hearings the amounts of claims on a number of lawsuits were reduced to a total of approximately 4.0 billion rubles as principal and approximately 131.7 million rubles as interest. In October-November 2013, the Arbitrazh Court of Kemerovo region sustained all lawsuits and obliged our subsidiaries to repay the loans and interest to Tomusinsky Open Pit. We filed appeals for all cases. As of the date hereof, the Seventh Arbitrazh Court of Appeal dismissed our claims with respect to seven cases, sustained our claims in part with respect to one case and sustained our claims in full with respect to four cases. The court proceedings with respect to two cases have been suspended. We intend to appeal court s decisions ruled not in our favor in the court of cassation.

On December 16, 2013, SAVEN filed a claim in the Arbitrazh Court of Kemerovo region against Tomusinsky Open Pit and Southern Kuzbass Coal Company seeking invalidation of coal supply contracts signed between Tomusinsky Open Pit and Southern Kuzbass Coal Company, application of the consequences of their invalidity in the form of repayment of 21.1 billion rubles and interest recovery in favor of Tomusinsky Open Pit. The court hearing is scheduled for May 28, 2014.

Dividend Distribution Policy

We will determine the amount of dividends payable on our common shares based on cash needs of our business, which will be influenced by the market situation, results of our operations, the level and availability of debt and debt servicing requirements and the requirements of our capital investment program.

We determine the amount of dividends payable on our preferred shares based on the provisions of our charter. See Item 10. Additional Information Description of Capital Stock Dividends.

In addition, some of our credit facility agreements impose certain restrictions on the payment of dividends on our shares. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants, Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness.

The decision to pay dividends and the amount thereof must be recommended by our Board of Directors taking into account the charter s provisions and approved by our shareholders. The amount of dividends, if any, approved by the shareholders may not be higher than the amount proposed by the Board of Directors. In particular, dividends may be

declared and paid only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

our charter capital has been paid in full;

258

- the value of our net assets, calculated under Russian accounting standards, is not less (and would not become less as a result of the proposed dividend payment) than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;

- we have repurchased all shares from shareholders having the right to demand repurchase; and

- we are not, and would not become, insolvent as the result of the proposed dividend payment.

For a further description, please refer to Item 10. Additional Information Description of Capital Stock Dividends. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

On June 28, 2013, our general shareholders meeting decided not to pay dividends on common shares but declared a dividend of 6.9 million rubles for preferred shares (of which 2.8 million rubles was paid to Skyblock Limited), which was paid in August 2013. On June 29, 2012, Mechel declared a dividend of 3.3 billion rubles for common shares and 4.3 billion rubles for preferred shares (of which 1.7 billion rubles was paid to Skyblock Limited), which was paid in August 2012. On June 6, 2011, Mechel declared a dividend of 3.6 billion rubles for common shares and 3.6 billion rubles for preferred shares (of which 1.5 billion rubles was paid to Skyblock Limited), which was paid in August 2011. In each case we could not pay dividends to those shareholders who did not provide us with their bank account details.

We anticipate that any dividends we may pay in the future on shares represented by ADSs will be declared and paid to the depositary in rubles (subject to Russian withholding tax) and will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary s fees and expenses. Accordingly, the value of dividends received by holders of ADSs will be less than the amounts declared and subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. For information on risks associated with Russian withholding tax on dividends to holders of ADSs, see Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations.

Significant Changes

Other than as described in this document, no significant change in our business has occurred since December 31, 2013.

Item 9. ***The Offer and Listing***

Our common ADSs have been listed on the NYSE under the symbol MTL since October 2004. Our common shares were listed on Open Joint Stock Company Russian Trading System Stock Exchange (**RTS**) under the symbol MTLR in June 2004, and in October 2008 were promoted to the quotation list A-2. In December 2011, RTS ceased to exist as a result of its reorganization through accession to Closed Joint Stock Company Moscow Interbank Currency Exchange (**CJSC MICEX**), now Open Joint Stock Company Moscow Exchange MICEX-RTS (**Moscow Exchange**), and our common shares were excluded from the quotation list A-2 on RTS. In December 2008, our common shares were admitted to trading on MICEX and included in the quotation list V , and were promoted to the quotation list A-1 in March 2009. Since December 2011, our common shares have been traded in the quotation list A-1 on MICEX only. Since the liquidity of our shares on MICEX was typically much higher than on RTS, in the table below starting from January 2009 we use MICEX data (conversion from rubles into U.S. dollars is made using the CBR exchange rate).

259

Table of Contents

The following table sets forth the high and low closing prices per common ADS and common share for: (1) the most recent six months; (2) the most recent nine quarters; and (3) all years following our initial public offering in 2004. As of May 19, 2008, we changed the ratio of our common shares to common ADSs from 3:1 to 1:1 by issuing two new common ADSs for each common ADS of record as of May 16, 2008. The common ADS prices below have been recalculated to reflect the new common ADS-to-common share ratio.

	Common ADSs		Common Shares	
	High	Low	High	Low
		(In U.S. dollars)		
April 2014	2.11	1.79	1.11	1.03
March 2014	2.11	1.66	1.19	0.88
February 2014	2.17	1.88	1.82	1.11
January 2014	2.46	1.94	1.99	1.75
December 2013	2.58	1.97	2.10	1.75
November 2013	3.30	2.07	3.24	1.72
October 2013	3.43	3.14	3.33	3.12
First Quarter 2014	2.46	1.66	1.99	0.88
Fourth Quarter 2013	3.43	1.97	3.33	1.72
Third Quarter 2013	3.91	2.75	3.48	2.84
Second Quarter 2013	4.94	2.71	4.92	2.70
First Quarter 2013	7.40	5.03	7.22	4.95
Fourth Quarter 2012	7.28	5.84	7.32	6.15
Third Quarter 2012	8.05	5.37	8.08	5.47
Second Quarter 2012	9.51	5.27	9.44	5.35
First Quarter 2012	12.37	8.98	11.89	8.76
2013	7.40	1.97	7.22	1.72
2012	12.37	5.27	11.89	5.35
2011	34.59	7.90	32.74	8.05
2010	30.80	17.45	30.11	17.64
2009	21.82	2.57	17.81	2.29
2008	57.62	3.66	45.00	4.10
2007	34.63	7.91	25.71	8.30
2006	10.32	6.34	10.20	6.25
2005	12.17	7.02	11.20	7.75
2004	7.48	5.26	17.00	0.36

Our preferred ADSs have been listed on the NYSE under the symbol MTL PR since May 2010. In April 2011, our preferred shares were admitted to trading without listing on RTS and MICEX. Our preferred shares were included in the quotation list A-1 on MICEX in July 2011. In December 2011, RTS ceased to exist as a result of accession to CJSC MICEX, now Moscow Exchange, and our preferred shares were excluded from the list of securities admitted to trading without listing on RTS. Since December 2011, our preferred shares have been traded in the quotation list A-1 on MICEX only. Each preferred ADS represents one-half of a preferred share.

260

Table of Contents

The following table sets forth the high and low closing prices per preferred ADS and preferred share for: (1) the most recent six months; (2) the most recent nine quarters; and (3) all years following the public offering in 2010.

	Preferred ADSs		Preferred Shares	
	High	Low	High	Low
	(In U.S. dollars)			
April 2014	0.34	0.31	0.74	0.66
March 2014	0.40	0.31	0.66	0.55
February 2014	0.43	0.34	0.92	0.68
January 2014	0.47	0.42	1.09	0.93
December 2013	0.47	0.39	1.13	1.01
November 2013	0.73	0.48	1.50	1.06
October 2013	0.75	0.72	1.67	1.53
First Quarter 2014	0.47	0.31	1.09	0.55
Fourth Quarter 2013	0.73	0.39	1.67	1.01
Third Quarter 2013	0.90	0.74	1.79	1.56
Second Quarter 2013	1.42	0.83	2.71	1.61
First Quarter 2013	2.23	1.45	4.11	2.71
Fourth Quarter 2012	2.67	1.92	5.15	3.86
Third Quarter 2012	3.10	2.28	5.48	4.54
Second Quarter 2012	3.70	2.28	7.10	4.57
First Quarter 2012	4.91	3.57	11.82	8.97
2013	2.23	0.39	4.11	1.01
2012	4.91	1.92	11.82	3.86
2011	11.27	3.24	8.99	6.15
2010	9.66	6.60	n/a	n/a

Item 10. ***Additional Information***

Charter and Certain Requirements of Russian Legislation

We describe below our registered common and preferred shares, the material provisions of our charter in effect on the date of this document and certain requirements of Russian legislation. In addition to this description, we urge you to review our charter, which is included as an exhibit to this document, to review its complete terms. The description of our charter is qualified in its entirety by reference to the charter.

Our Purpose

Article 4.1 of our charter provides that our primary purpose is to earn profit, as well as to provide the highest-quality products and services for our customers.

Description of Capital Stock

General

Pursuant to our charter, as amended, we have the right to issue registered common shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our capital stock

currently consists of 555,027,660 shares, including 416,270,745 common shares, each with a nominal value of 10 rubles, and 138,756,915 preferred shares, each with a nominal value of 10 rubles, all of which are fully paid, issued and outstanding under Russian law. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. We are authorized to issue an additional 81,698,341 common shares with a nominal value of 10 rubles each. None of our capital stock is under option or agreed conditionally or unconditionally to be put under option. Any of our shares that are owned by our

Table of Contents

subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares), and we are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or Board of Directors, provided that such disposals are not major or interested party transactions. Currently, our wholly-owned subsidiary Skyblock Limited holds 55,502,766 preferred shares. The shares are considered issued and outstanding shares under Russian law and have all the rights attaching to other preferred shares. The preferred shares owned by Skyblock Limited are not considered outstanding for purposes of our U.S. GAAP financial statements.

Currently, we have more than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint-Stock Companies Law, as described below.

A resolution of our Board of Directors dated May 14, 2008 approved an increase in our charter capital through the issuance of 55,000,000 preferred shares with a nominal value of 10 rubles. On September 19, 2008, our Board of Directors amended its resolution to increase the number of preferred shares being issued to 138,756,915 preferred shares which is the maximum number of preferred shares authorized by our charter. The decision to issue 138,756,915 preferred shares was registered with the FFMS on October 23, 2008. On April 2, 2009, we placed all 138,756,915 of the preferred shares authorized for issuance at the placement price of 10 rubles per share. All the preferred shares were taken up by our wholly-owned subsidiary Skyblock Limited, which was the sole offeree. A report on the placement of the preferred shares was registered with the FFMS on April 14, 2009. We transferred 83,254,149 preferred shares to the sellers of 100% of the shares and interest of Bluestone Industries, Inc., Dynamic Energy, Inc. and JCJ Coal Group, LLC and certain other companies as part of the consideration in our acquisition of the Bluestone. Our preferred shares are not convertible into common shares, bonds or other securities of Mechel.

Rights attaching to common shares

Holders of our common shares have the right to vote at general shareholders meetings. As required by the Joint-Stock Companies Law and our charter, all of our common shares have the same nominal value and grant to their holders identical rights. Each fully paid common share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without the consent of other shareholders or the company;
- receive dividends in accordance with our charter and current legislation;
- participate in general shareholders meetings and vote on all matters of shareholders competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- elect and be elected to the governing and controlling bodies of the company;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals to the agenda of the annual general shareholders meeting and nominate candidates to the board of directors, review commission and counting commission;

if holding, alone or with other holders, 10% or more of the voting stock, demand that the board of directors call an extraordinary general shareholders meeting or an unscheduled audit by our review commission or an independent auditor;

demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:

our reorganization;

conclusion of a major transaction, as defined under Russian law; and

amendment of our charter or approval of a new version of our charter that restricts the holder s rights;

262

upon liquidation, receive a proportionate amount of our property after our obligations to our creditors are fulfilled;

have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents; and

exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of general shareholders meetings approved in accordance with its competence.

Rights attaching to preferred shares

Pursuant to our charter, as amended, all of our preferred shares have the same nominal value and grant to their holders identical rights. Each fully paid preferred share gives its holder the right to:

freely transfer preferred shares without the consent of other shareholders;

receive dividends in accordance with our charter and current legislation;

upon liquidation, receive a portion of our liquidation value, which is equal to a portion of our assets calculated pro rata to the portion represented by one preferred share in our charter capital;

have access to certain company documents and receive copies for a reasonable fee;

transfer all or part of the rights attached to the preferred shares to its representative on the basis of a power of attorney; and

participate in shareholders meetings and vote on the following matters:

our reorganization, liquidation and release from the obligation to comply with applicable Russian disclosure rules;

any amendment of our charter or approval of a new version of our charter that restricts the preferred shareholders rights, including amendments to the formula for calculation of dividends and/or the amount of the liquidation value attached to the shares;

participate in shareholders meetings and vote on all matters on which common shareholders are entitled to vote if for any reason the annual shareholders meeting did not adopt a resolution to pay the

full amount of dividends to which preferred shareholders are entitled under our charter. The holders of preferred shares enjoy this right effective from the first shareholders meeting to be held after the relevant annual shareholders meeting and until the date when dividends on preferred shares are paid in full; and

filing of an application with a stock exchange for listing or delisting of our preferred shares.

Pre-emptive rights

The Joint-Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase additional shares or securities convertible into shares issued by way of open subscription in an amount proportionate to their existing holding of shares of the same category as the newly issued shares. In addition, the Joint-Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to placement of shares or securities convertible into shares through a closed subscription among existing shareholders only, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing holdings. We must publish a notice of the proposed placement of shares or provide shareholders with such notice in writing at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. In case the price of shares or the procedure for determining the price of shares is to be approved by the board of directors not later than the beginning of

263

Table of Contents

placement period, the term for exercising the pre-emptive rights may be shortened to 20 days, or even to eight business days if the notice of the proposed placement of shares is subject to disclosure under Russian law.

Dividends

The Joint-Stock Companies Law and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. Shareholders may decide on whether or not to pay the dividends upon results of a financial quarter, half a year, nine months and/or year. Dividends are recommended to a general shareholders meeting by the board of directors, and approved by the general shareholders meeting by a majority vote. A decision on quarterly dividends may be taken at a general shareholders meeting within three months of the end of the respective quarter; a decision on annual dividends must be taken at the annual general shareholders meeting. A decision on payment of dividends for common shares can be taken only after the decision on payment of dividends for preferred shares is taken. The dividend approved at the general shareholders meeting may not be more than the amount recommended by the board of directors. The date on which in accordance with the decision on payment (declaration) of dividends are determined the persons entitled to receive them, cannot be earlier than 10 days from the date of the decision to pay (declare) dividends and later than 20 days from the date of such decision. Dividends are not paid on treasury shares. Dividend payment period to a nominal holder and a trustee who is a professional participant of the securities market, which are registered in the register of shareholders, shall not exceed 10 business days, and to other persons registered in the register of shareholders shall not exceed 25 business days from the date on which the persons entitled to receive dividends are defined. A shareholder who is entitled to the declared dividends but has not received them due to the fact that the company or the registrar has no exact and necessary address information or bank details, or in connection with the other creditor s delay, has a right to make a claim to the company for the unpaid dividends within three years upon the expiration of the dividend payment period. Upon the expiration of this three year period, claims for declared and unpaid dividends will lapse in favor of the company.

Starting from January 1, 2014, a new cascade dividend payment mechanism is introduced with respect to shares recorded on custodians account as opposite to the shareholders register. The cascade payment mechanism provides that Russian issuers will pay dividends to custodians and depositary banks, who in turn will be obliged to further transfer dividends to shareholders. Under the new regime no disclosure will be required by ultimate beneficial owners in order to receive dividends. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

The Joint-Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;

- the value of the company s net assets on the date of adoption of the decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company s charter capital, the company s reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;

the company has repurchased all shares from shareholders who demanded repurchase; and

the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Pursuant to our charter, as amended, we shall calculate the dividends for preferred shares on the basis of our consolidated financial statements prepared under accepted international accounting standards which we apply for the relevant accounting period, including IFRS and U.S. GAAP. The annual fixed dividend for one preferred share amounts to 20% of our net profit under our annual consolidated financial statements prepared in accordance with the applicable international accounting standards and audited by an independent auditor, divided by 138,756,915.

Table of Contents

For the purpose of calculating the amount of dividends for preferred shares, we convert our net profit under the applicable international accounting standards into rubles using the official exchange rate of the CBR as of the date the board of directors decides to recommend the amount of dividends for the preferred shares.

If the dividend to be paid for one common share exceeds the dividend to be paid for one preferred share for the same year, we must increase the dividend to be paid for one preferred share up to the amount of dividend to be paid for one common share. For this purpose, if the nominal value of our common shares has changed (e.g., through a share split), the dividend to be paid for one common share is calculated as if its nominal value has not changed. If dividends for common shares are to be paid in kind, the monetary value of such payment must be evaluated by an independent appraiser.

Distributions to shareholders on liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint-Stock Companies Law and our charter allow us to be liquidated:

- voluntarily, by a three-quarters majority of the voting stock present at a general shareholders meeting; or
- involuntarily, by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a general shareholders meeting and, in an involuntary liquidation, is appointed by the court. Creditors may file claims within a period to be determined by the liquidation commission, but which may not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- individuals owed compensation for injuries or deaths;
- payments related to disbursement of accrued vacation pay and wages of persons currently or formerly employed under an employment agreement and remuneration to owners of intellectual property rights;
- federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- other creditors in accordance with Russian legislation.

Claims of creditors in connection with obligations secured by a pledge of the company s property (**secured claims**) are satisfied out of the proceeds of the sale of the pledged property prior to claims of any other creditors except for the creditors of the first and second priorities described above, provided that claims of such creditors arose before the

pledge agreements in respect of the company s property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth priority creditors as described above.

The Joint-Stock Companies Law and our charter provide for the following order of priority for distribution of remaining assets after settlement with creditors:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company s charter, as amended; and
- payments to holders of common and preferred shares with account of the previously paid liquidation value of the preferred shares.

265

Table of Contents

Liability of shareholders

The Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of a 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 called an effective parent. The entity whose decisions are capable of being so determined is called an effective subsidiary. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in course of 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 binding instructions to the effective subsidiary based on the above-mentioned decision-making capability.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent s effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, a shareholder will not be personally liable for our debts or those of our effective subsidiaries unless such shareholder controls our business and the conditions set forth above are met. See Risk Factors Legal risks and uncertainties Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

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 fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case regardless of how the effective parent s capability to determine decisions of the effective subsidiary arises, for example, whether through ownership of voting securities or by contract. If the effective subsidiary is a joint-stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency or bankruptcy of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary s insolvency is caused by the willful misconduct or negligence of such effective parent and if the effective subsidiary s assets are insufficient to cover its obligations. To be relieved from the liability, the effective parent would need to prove before the court that it acted in good faith and in the interests of the effective subsidiary.

Shareholders of an effective subsidiary that is a joint-stock company may also claim compensation for the effective subsidiary s losses from the effective parent if: (1) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (2) the effective parent knew that such action or failure to take such action would result in an effective subsidiary s loss. Members of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary s losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Russian law also provides for other cases in which shareholders may be held liable to us.

Charter capital increase

We may increase our charter capital by:

- issuing additional shares, or
- increasing the nominal value of already issued shares.

266

Table of Contents

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of common shares or securities convertible into common shares constituting more than 25% of the number of issued common shares, requires a three-quarters majority of the voting stock present at a general shareholders meeting. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority of the voting stock present at a general shareholders meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority of the voting stock present at a general shareholders meeting.

The Joint-Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value, except in limited circumstances where: (1) existing shareholders exercise a pre-emptive right to purchase shares at the price which is not more than 10% lower than the price paid by third parties, or (2) fees of up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint-stock company. These procedures require:

- taking a decision on share placement and approving the resolution on share issuance;
- registration of a share issuance with the CBR;
- following the placement of the shares, registration and filing with the CBR of a report on results of share issuance and its public disclosure; and
- public disclosure of information relating to the share issuance.

Charter capital decrease

The Joint-Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint-stock company. The Joint-Stock Companies Law and our charter require that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction in the nominal value of the shares, be made at a general shareholders meeting.

The Joint-Stock Companies Law allows a company to reduce its share capital only if, at the time of such reduction:

- its share capital is paid up in full;
- the company is not, and would not become, as a result of the payment to, or the modification of the securities of, the shareholders, as described above, insolvent;

the value of its net assets is not less (and would not become less, as a result of the payment or the modification of the securities to the shareholders) than the sum of its share capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares;

the company has repurchased all shares from shareholders that have the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below;

the company has fully paid all declared dividends; and

the company complies with other requirements of Russian legislation.

267

Table of Contents

In addition, within three business days after taking the decision to reduce our charter capital, we must notify this decision to the authority which carries out state registration of legal entities and publish this decision twice with a monthly interval. Within 30 days of the latest of such publications, our creditors, whose claim rights had occurred prior to the publication, would then have the right to accelerate our indebtedness and to demand reimbursement of applicable damages.

Share buy-back

The Joint-Stock Companies Law allows our shareholders or our board of directors to authorize the repurchase of our shares for consideration valued at up to 10% of Mechel s net assets. The repurchased shares must be resold at a value not less than a market value within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. Repurchased shares do not bear voting rights.

The Joint-Stock Companies Law allows us to repurchase our shares only if:

- our charter capital is paid in full;
- we are not and would not become, insolvent as a result of the repurchase;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with Russian law, as described immediately below; and
- the charter capital has been decreased by acquiring a part of the shares with the view to reduce their total number, provided that following such decrease the charter capital has not become lower than the minimum amount of the charter capital set forth by the Joint-Stock Companies Law (which is equal to 100,000 rubles).

The Joint-Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares if the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law;

amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholders rights; or

filing of an application with a stock exchange for delisting of our shares or securities convertible into shares.

A shareholder demanding repurchase must send to us a written request within 45 days following the date when the relevant decision of the general shareholders meeting is taken. We must purchase the shares of the demanding shareholder within 30 days following the expiration of the above 45-day period. We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

A shareholders decision on filing of an application for delisting of our shares enters into effect if the consideration to be paid for the repurchase of shares does not exceed 10% of our net assets.

Table of Contents

Registration and transfer of shares

Russian legislation requires that a joint-stock company maintain a register of its shareholders. Ownership of our shares is evidenced solely by entries made in such register. Any of our shareholders registered in a register may obtain an extract from our register certifying the number of shares that such shareholder holds. Since September 2, 2008, Registrar NIKoil Company OJSC has maintained our shareholder register, replacing Regional Independent Registrar Agency OAO.

The purchase, sale or other transfer of shares is accomplished through the registration of such transfer in the shareholder register, or the registration of such transfer with a depositary if shares are held and recorded by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register or with a depositary. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed except in certain instances provided for by Russian legislation, and may be challenged in court.

The Federal Law No. 414-FZ On the Central Depositary dated December 7, 2011 (the **Central Depositary Law**), which came into force on January 1, 2012, set out a legal framework for establishment and operation of the central depositary. On November 6, 2012, the FFMS granted NSD the status of central depositary. Within one year from the date of having been granted such a status, the central depositary shall take all necessary steps to open its nominal holder accounts in, among others, all securities registers of the issuers which are obliged to disclose information in accordance with Russian securities law. As we are required to make public disclosures, the above requirement is applicable to us, which means that the central depositary became the only person having a nominal holder account in our share register. Also, the Central Depositary Law prohibits persons maintaining securities registers from opening and depositing securities (save for limited exceptions) to other nominal holder accounts from the date of the opening of a nominal holder account with the central depositary.

Reserve fund

Russian legislation requires that each joint-stock company establish a reserve fund to be used only to cover the company s losses, redeem the company s bonds and repurchase the company s shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our statutory net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Under Russian legislation, disclosure of information on the securities market means making it available to all interested parties, regardless of the purpose of obtaining this information. We are required to make the following periodic public disclosures and filings in the newswire of authorized information agency Interfax (*www.e-disclosure.ru*), on our websites at *www.mechel.ru* and *www.mechel.com*, as well as on the website provided by authorized information agency Interfax (*www.e-disclosure.ru/portal/company.aspx?id=1942*):

- disclosure of quarterly reports containing information about us, our shareholders, registrar and depositary, the structure of our management bodies, the members of the board of directors, management board and review commission, our branches and representative offices, our subsidiaries and affiliates, our shares, bank accounts and auditors, important developments during the reporting quarter, quarterly accounting reports prepared in accordance with Russian accounting standards, and other information about our financial and

business activity;

disclosure of any information concerning material facts and other official disclosures, including, among other things, our reorganization; certain changes in the amount of our assets; decisions on share issuances; certain changes in ownership and shareholding; information about controlled organizations which are material to us or organizations controlling us, reorganization, liquidation or bankruptcy of

269

Table of Contents

such organizations; conclusion of agreement with our controlled or controlling organization, where we are required to buy securities issued by such controlled or controlling organization; as well as shareholder and management bodies resolutions;

notifying MICEX about the disclosure of aforementioned information;

disclosure of the documents that we have received in connection with any of the following:

- a voluntary offer (including any competing offer) to acquire us;
- a mandatory offer (including any competing offer) to acquire us;
- a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of our common shares; and
- a request that minority shareholders sell their shares to the person that has acquired more than 95% of our common shares;

disclosure of information on various stages of securities placement, issuance and registration through publication of certain data as required by the securities legislation;

disclosure of our charter and internal corporate governance documents;

disclosure of our annual report and annual financial statements prepared in accordance with Russian accounting standards and our annual and interim U.S. GAAP financial statements and filing them with MICEX;

disclosure on a quarterly basis of a list of our affiliated companies and individuals and its amendments and filing it with MICEX;

disclosure of a list of information which is considered an insider information and approved by the company (**insider information**);

disclosure of insider information; and

disclosure of other information as required by applicable Russian securities legislation and the rules of MICEX.

General Meetings of Shareholders

Procedure

A general shareholders meeting may exercise only the powers that are set forth in the Joint-Stock Companies Law and in our charter. Among the issues which our shareholders have the exclusive power to decide are:

approval of charter amendments or of a new version of the charter;

reorganizations or liquidations;

election and early removal of the members of the board of directors;

determination of the number, nominal value and type of authorized shares and rights granted by such shares;

changes in the company s charter capital;

appointment and early removal of the members of our review commission and counting commission;

approval of our independent auditor;

approval of certain interested party transactions (the value of which is 2% or more of the balance sheet value of the company s assets) and major transactions (the value of which is more than 50% of the balance sheet value of the company s assets);

Table of Contents

- distribution of profits and losses, including approval of dividends payment;
- decisions on our participation in commercial or industrial groups or other associations of commercial entities;
- redemption by the company of issued shares in cases provided for by the Joint-Stock Companies Law;
- approval of certain internal documents regulating the activity of our governing bodies;
- decision on filing of an application for delisting of our shares or securities convertible into shares; and
- other issues, as provided by the Joint-Stock Companies Law and our charter.

Voting at a general shareholders meeting is generally carried out on the principle of one vote per voting share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority of the voting stock present at a general shareholders meeting. However, Russian law requires a three-quarters majority of the voting stock present at a general shareholders meeting to approve the following:

- approval of charter amendments or of a new version of the charter;
- reorganizations or liquidations;
- determination of the number, nominal value and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into common shares by closed subscription;
- issuance by open subscription of common shares or securities convertible into common shares, in each case, constituting 25% or more of the number of issued and outstanding common shares; and
- decision on filing of an application for delisting of our shares or securities convertible into shares.

A resolution of the shareholders meeting to apply for listing or delisting of our preferred shares requires a three-quarters majority vote of the voting common stock present at the meeting and a three-quarters majority vote of

the total preferred stock. The Joint-Stock Companies Law provides that a charter may require a larger number of the votes for passing such resolution.

The quorum requirement for our general shareholders meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the quorum requirement is not met, another general shareholders meeting with the same agenda may (and, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual general shareholders meeting must be convened by the board of directors and be held between March 1 and June 30 of each year, and the agenda must include the following items:

- election of the members of the board of directors and review commission;
- approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits, including approval of annual dividends and losses, if any; and
- appointment of an independent auditor.

A shareholder or group of shareholders owning in the aggregate at least 2% of the outstanding voting shares may introduce proposals for the agenda of the annual general shareholders meeting and may nominate

271

Table of Contents

candidates to the board of directors, general director, the review commission and counting commission. Any agenda proposals or nominations must be provided to the company no later than 30 days after the preceding financial year ends.

Extraordinary general shareholders meetings may be called either by the board of directors on its own initiative, or at the request of the review commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general shareholders meeting may be held in a form of a meeting or by an absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general shareholders meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general shareholders meeting by absentee ballot contemplates the determination of shareholders opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders meeting by absentee ballot:

- election of directors;
- election of the review commission;
- approval of a company s independent auditor for statutory accounts; and
- approval of the annual report and annual financial statements, including balance sheet, profit and loss statement and any distribution of profits and losses, including approval of annual dividends, if any.

If the number of shareholders exceeds 1,000 persons, the voting ballots, which must be used when conducting a general shareholders meeting in form of a meeting in a joint-stock company, must be sent to the shareholders entitled to participate in the general shareholders meeting at least 20 days in advance of the general shareholders meeting.

Notice and participation

All shareholders entitled to participate in a general shareholders meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, not less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting or, if the company s charter determines it, by publishing a notice of the meeting in a printed publication. However, if it is an extraordinary general shareholders meeting to elect the board of directors or it is a general shareholders meeting to elect the board of directors of a reorganized company, shareholders must be notified (by printed publication) at least 70 days prior to the date of the meeting. Under our charter, we may either provide notice by mail or deliver notice with the acknowledgement of receipt to each of our shareholders or publish a notice in *Rossiyskaya Gazeta*, an official newspaper founded by the Russian government. Only those items that were set out in the agenda may be voted upon at a general shareholders meeting. We may also publish a notice of the meeting on our website stated in the charter. In addition, nominal holders included in the shareholder register will be notified of the shareholders meeting by way of an electronic communication and will be

required to convey such information to the depositors within a prescribed period.

The list of shareholders entitled to participate in a general shareholders meeting is compiled on the basis of the data in our shareholder register on the date established by the board of directors, which date may neither be earlier than 10 days from the date of adoption of the resolution to hold a general shareholders meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders meeting to elect the board of directors, not more than 80 days before the date of the meeting).

Table of Contents

The right to participate in a general shareholders meeting may be exercised by a shareholder as follows:

by personally participating in the discussion of agenda items and voting thereon;

by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;

by absentee ballot; or

by delegating the right to fill out the absentee ballot to an authorized representative.

The Federal Law No. 415-FZ also sets forth new obligations for a depositary to disclose information on depositary receipt owners in order to exercise voting rights with respect to the shares represented by depositary receipts. The regulation setting forth the requirements for the provision of information was approved by the Order of the FFMS dated February 5, 2013. Information about the depositary receipt owners is provided to the issuer in the form of a list of persons who exercise the rights under the depositary receipts. The list is provided to the issuer by the foreign depositary which opens the depo account of depositary programs. The list is provided for the preparation and holding of a shareholders meeting. See also Item 3. Key Information Risk Factors Risks Relating to Our Shares and the Trading Market Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

Board of Directors

The Joint-Stock Companies Law and our charter provide that our entire board of directors is up for election at each annual general shareholders meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder has a number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the members of the board of directors may be removed as a group at any time without cause by a majority of the voting stock present at a general shareholders meeting.

The Joint-Stock Companies Law requires at least a five-member board of directors for all joint-stock companies, at least a seven-member board of directors for a joint-stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint-stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. Members of the management board are not permitted to constitute more than 25% of the members of the board of directors. The actual number of directors is determined by the company s charter or decision of the general shareholders meeting. Our charter provides that our board of directors shall consist of nine members, and the majority of our directors shall be independent.

The Joint-Stock Companies Law prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders meeting. Our board of directors has the power to direct the general management of the company, and to decide the following issues:

determination of our business priorities and approving our annual and quarterly budget;

convening of annual and extraordinary general shareholders meetings, except in certain circumstances specified in the Joint-Stock Companies Law;

approval of the agenda of the general shareholders meeting and determination of the record date for shareholders entitled to participate in a general shareholders meeting;

273

placement of our additional shares in which convertible preferred shares are converted provided that it will not result in charter capital increase, and placement of our bonds and other securities, except for the shares;

determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint-Stock Companies Law;

repurchase of our shares, bonds and other securities in certain cases provided for by the Joint-Stock Companies Law;

appointment of the general director and members of the management board, and early termination of their powers and the establishment of their compensation;

recommendation to the general shareholders meeting on the amount of a dividend and the payment procedure thereof;

recommendation on the amount of remuneration and compensation to be paid to the members of our review commission and on the fees payable for the services of an independent auditor;

the use of our reserve fund and other funds;

the creation and liquidation of branches and representative offices;

approval of internal documents, except for those documents whose approval falls within the competence of the company s shareholders or general director or the management board;

approval of major and interested party transactions in the cases provided for by the Joint-Stock Companies Law;

increasing our charter capital by issuing additional shares within the limits of the authorized charter capital, except in certain circumstance specified in our charter;

approval of decisions on securities issuances and of the prospectus relating to such securities issuances, as well as of reports on the results of such securities issuances;

approval of our share registrar;

- decision on filing of an application for delisting of our shares or securities convertible into shares; and

- other issues, as provided for by the Joint-Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A board meeting is considered duly assembled and legally competent to act when at least five directors, including at least one independent director, are present. In addition, our charter requires the presence of at least three quarters of the total number of directors, including at least one third of the total number of independent directors, for board meetings convened to make decisions on certain matters specified in our charter.

Management Board

In June 2011, an annual general shareholders meeting approved a new version of the Bylaw on the Collegial Executive Body (Management Board). Pursuant to the Bylaw, the management board engages in discussions regarding important corporate issues within its powers and makes recommendations to our board of directors. The management board operates on the basis of our charter and applicable internal regulations. The management board s size is defined by the board of directors, and it is comprised of senior management of Mechel and our subsidiaries, with each member of the management board elected by the board of directors. A meeting of the management board is quorate if at least half of its members participate in the meeting.

Table of Contents

The management board decides on the following issues, among others:

- developing and submitting to the board of directors long-term plans for the implementation of the company s priorities and proposals regarding its development strategy;
- reporting to the board of directors on the realization of investment projects in the amount of more than $30 million;
- developing and submitting to the board of directors investment projects in the amount of more than $50 million;
- submitting to the board of directors proposals on bonds placement and acquisitions;
- submitting to the board of directors proposals on participation (obtaining or increasing participation) or giving up (reducing) our participation in other entities;
- approving annual and long-term investment programs;
- approving transactions related to disposals by the company of capital assets with a value of between 10% to 25% of the balance sheet assets of the company;
- making certain decisions regarding the exercise of our rights as a shareholder or a participant of other entities;
- making recommendations on certain matters relating to the management of our affiliates included in the list approved by our management board;
- developing and establishing methods of compensation and monetary motivation for our employees; and
- other issues related to our day-to-day business referred to the management board by its chairman, the board of directors or by a shareholder holding not less than 20% of our voting shares.

General Director

The general director (also referred to in this document as chief executive officer) is our sole executive body and manages our current operations within its powers and organizes the implementation of resolutions of our general shareholders meeting and the board of directors. The general director acts on our behalf without a power of attorney

and has the following rights and responsibilities:

- performing the routine management of our operations;
- exercising the right of first signature on financial documents;
- managing our property to provide for our current operations within the limits established by our charter and prevailing Russian legislation within its powers;
- representing our interests both in Russia and abroad;
- approving staff, executing labor contracts with our employees and rewarding and disciplining employees;
- entering into transactions on our behalf within its powers;
- issuing powers of attorney on our behalf;
- opening and closing our bank accounts;
- organizing our accounting and reporting process;
- issuing orders and instructions binding on all our employees;
- organizing the implementation of resolutions of our general shareholders meeting and our board of directors; and

performing other functions necessary to achieve our aims and to provide for our normal operations, in compliance with prevailing legislation and our charter, except for the functions laid upon our other management bodies by the Joint-Stock Companies Law and our charter.

The general director is appointed by the board of directors for a period of one year. The term of office runs from the time of his appointment until such time as a general director is appointed by the board of directors one year later. The general director may be re-appointed an unlimited number of times.

The general director may on his own initiative renounce his powers at any time by written notice to the board of directors. The authority of the general director may be terminated before the expiration of his term of office by a resolution of the board of directors on the following grounds:

failure to comply with the requirements of our charter, resolutions of the general shareholders meeting or the board of directors or our internal documents;

in the cases stipulated by the employment agreement with the general director; and

in other events provided by current legislation.

Upon resolution of the general shareholders meeting, the authority of the sole executive body may be vested in a commercial organization (a **managing organization**) or an individual entrepreneur (a **manager**) on a contractual basis. Under the Civil Code, if the authority of a company s sole executive body has been vested in a managing organization or a manager, the company exercises its legal rights and assumes its legal obligations through such managing organization or manager. A resolution to transfer the authority of a company s sole executive body to a managing organization or a manager shall be passed by the general meeting of shareholders only upon recommendation of the board of directors of the company.

Our general director is required under Russian law to disclose information on his holdings of our securities and on sales and/or purchases of our securities.

Role of the Review Commission

The review commission exercises control over our financial and business operations.

On the basis of the results of its examination of our financial and business operations, the review commission prepares opinions, which contain the following:

confirmation of the reliability of the data contained in our reports and other financial documents; and

information on any identified cases of violations of accounting and reporting procedures stipulated by Russian legislation and violations of Russian legislation identified in financial and business operations.

Upon a request from the review commission, the general director and members of the board of directors, the management board and the liquidation commission must undertake to make available documents pertaining to our

financial and business operations. The review commission is entitled to request that an extraordinary general shareholders meeting be convened in accordance with the procedure provided by our charter.

The review commission is elected by our general shareholders meeting for a period of one year and consists of three persons. Shares owned by members of our board of directors or persons holding positions in our management bodies cannot participate in the voting, when members of the review commission are elected. The term of office of the review commission runs from the moment it is elected by the shareholders to the moment it is elected or re-elected by the next annual general shareholders meeting. The authority of individual members or the whole review commission may be terminated before the expiration of the term of office thereof by a resolution of the general shareholders meeting on the grounds and in compliance with the procedure stipulated

276

Table of Contents

by our internal documents. If the number of members of the review commission falls to less than half of the required membership thereof, the board of directors must convene an extraordinary general shareholders meeting to elect a new review commission. The remaining members of the review commission continue to perform their functions until a new review commission is elected.

A shareholder or any person proposed by a shareholder may become a member of the review commission. A member of the review commission cannot simultaneously be a member of the board of directors, a member of the liquidation commission, the general director or a member of the management board. The review commission elects its chairman and secretary from within its members.

The board of directors determines remuneration and compensation of expenses to the members of the review commission.

Interested Party Transactions

Under the Joint-Stock Companies Law, certain transactions defined as interested party transactions require approval by disinterested directors or shareholders of the company. Interested party transactions include transactions involving a member of the board of directors, a member of a collegial executive body of the company, a person or entity that performs the functions of a sole executive body, any person that owns, together with its affiliates, at least 20% of a company s issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person s spouse, parents, children, adoptive parents or children, blood or non-blood brothers and sisters or affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

- the owner (the various or in the aggregate) of at least 20% of the issued voting shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of any management body of a management organization of such a company.

The Joint-Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An independent director is a person who is not, and within the year preceding the decision was not, a general director, a member of any executive body of the company or its management company, a manager, or an affiliate of the company and whose sole nexus to the company is in the capacity of a member of the board of directors. In addition, such person s spouse, parents, children, adoptive parents or children, blood and non-blood brothers and sisters may not be a general director, a member of any executive body of the company or its management company, or a manager. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company s assets determined under Russian accounting standards;

the transaction or a number of interrelated transactions involves the issuance, by subscription, of common shares or securities convertible into common shares, or secondary market sale of such securities, in an amount exceeding 2% of the company s issued common shares and common shares into which issued convertible securities may be converted;

277

- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of the issued shares;
- the company is merging with or into another company; or
- the company is required by federal legislation to enter into the transaction, and settlements under such transaction are made pursuant to fixed rate schedules and prices established by appropriate state authorities.

For information on certain risks relating to interested party transactions see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry 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.

Major Transactions

The Joint-Stock Companies Law defines a major transaction as a transaction, or a number of related transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards as of the latest reporting date preceding the transaction, with the exception of transactions completed in the ordinary course of business or transactions involving the placement of common shares or securities convertible into common shares by means of subscription (disposal) or transactions to be executed by the company pursuant to the federal laws and/or other regulations of the Russian Federation and priced in accordance with the regulations of the Russian government or other federal bodies authorized by the Russian government. Major transactions involving

assets ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a majority of the voting stock present at a general shareholders meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority of the voting stock held by shareholders present at the general shareholders meeting.

For information on our controlling shareholder s potential ability to approve major transactions see Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry The concentration of our shares with our controlling shareholder will limit your ability to influence corporate matters and transactions with the controlling shareholder may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions.

Table of Contents

Change in Control

Anti-takeover protection

Russian legislation requires the following:

A person intending to acquire more than 30% of an open joint-stock company s common shares and voting preferred shares (including, for such purposes, shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares pursuant to the requirements of the Joint-Stock Companies Law.

A person that has acquired more than 30% of an open joint-stock company s common shares and voting preferred shares (including shares already owned by such person and its affiliates, but excluding shares that were acquired pursuant to previous voluntary or mandatory offers in compliance with the requirements of the Joint-Stock Companies Law) will be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at a price which is not less than the price determined based on a weighted market price of the shares during trading sessions on a stock exchange for the six months preceding the date when a public tender offer was sent, or at a price not less than the market price, which must be determined by an independent appraiser if the shares have an insufficient or non-existent trading history. From the moment of acquisition of more than 30% of the shares until the moment of sending of an offer to the company, the person making the offer and its affiliates will be able to vote only 30% of the shares of the company (regardless of the size of their actual holdings). These rules are also applied (or reapplied) to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company s outstanding common shares and voting preferred shares.

A person that, as a result of such a voluntary or mandatory offer, becomes (individually or counting the shares held by its affiliates) the owner of more than 95% of the company s common shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities convertible into such shares, at a price not less than the prices of the preceding acquisition by the offeror. The offeror is entitled to require the holders of the remaining shares of the company, as well as other securities convertible into such shares, to sell such shares and other securities, provided that the offeror acquired not less than 10% of the total number of shares of the company as a result of acceptance by other shareholders of the voluntary or mandatory tender offer as described above.

An offer of the kind described in any of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If securities are listed on a stock exchange, prior notice of the offer must be filed with the CBR; otherwise, notice must be filed with the CBR no later than the date of the offer. The CBR may order amendments to the terms of the offer (including price) in order to bring them into compliance with the requirements of the current legislation.

Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of such an offer until 20 days after its expiration (which period may in certain cases exceed 100 days) the company s general shareholders meeting will have the sole power to make decisions on charter capital increase by way of issuance of additional shares, issuance of securities convertible into shares, including options of an open joint-stock company, approval of certain transactions or a number of related transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 10% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards as of the latest reporting date preceding the transaction, with the exception of transactions completed in the ordinary course of business, and on certain other significant matters.

Table of Contents

The above rule may be supplemented through rulemaking by the CBR, which may result in a broader, narrower or more specific interpretation of these rules by the government and judicial authorities, as well as by market participants.

Approval of the Russian Federal Antimonopoly Service

Pursuant to the Competition Law, acquisitions of voting shares of a joint-stock company, involving companies with a combined value of assets or annual revenues, exceeding a certain threshold under Russian accounting standards, or companies registered as having more than a 35% share of a certain commodity market, and which would result in a shareholder (or a group of shareholders defined under Russian law) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, or obtaining rights to determine the conditions of business activity of an entity or to exercise the authorities of its executive body must be approved in advance by the FAS. Such transactions executed between members of a group of companies may require only a subsequent notification to the FAS if prior notification about the members of the group of companies has been filed with the FAS and the information contained in this notification is still accurate as of the date of the relevant transaction and had not been changed within 30 days from the date of group s disclosure and prior to the date of the transaction s settlement. See Item 4. Information on the Company Regulatory Matters Russian Antimonopoly Regulation.

Foreign ownership

Under the Strategic Industries Law any acquisition, whether direct or indirect, by a foreign investor or its group of entities (except for the acquisition by a foreign investor controlled by the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have dual nationality) of a stake, or certain rights, in a Strategic Company or a Strategic Subsoil Company must be previously approved by the Governmental Commission. Under the Strategic Industries Law, acquisition of 5% or more of the charter capital of a Strategic Company by a foreign investor or its group of entities require notification of Russian authorities. The FAS is the federal executive authority for execution of control over making foreign investments in the Russian Federation. 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 and Item 4. Information on the Company Regulatory Matters The Strategic Industries Law.

The Federal Law No. 160-FZ On Foreign Investments in the Russian Federation, dated July 9, 1999, as amended (**Foreign Investments Law**), provides that any acquisition (whether direct or indirect) by a foreign state or international organization or entities controlled by them of (1) more than 25% of voting shares of a Russian company; or (2) any powers to block decisions of the management bodies of a Russian company, requires a prior approval of the Governmental Commission in accordance with the procedures set forth in the Strategic Industries Law.

Foreign persons registered as individual entrepreneurs in Russia, who acquire shares in a Russian joint-stock company, need to notify the Russian tax authorities within one month following such acquisition.

Disclosure of Ownership

Under Russian law, a holder of common shares of a joint-stock company, which has CBR registered prospectus, must notify the company and the CBR of an acquisition of 5% or more of the company s common shares or of an acquisition of the right to cast votes attached to 5% or more of the common shares by virtue of an agreement or otherwise, and of any subsequent change in the number of the common shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50%, 75% or 95% threshold. Such notifications must be given not later than 10 days after the common shares have been

transferred to such shareholder s securities account or after the acquisition of the right to cast votes attached to such common shares, whether by virtue of an agreement or otherwise.

280

Table of Contents

Negative Net Assets

If the net assets of a Russian joint-stock company calculated on the basis of the Russian accounting standards as of the end of its second financial year are lower than its share capital, the joint-stock company s board of directors must disclose it in the annual report. Furthermore, if the net assets of a Russian joint-stock company calculated on the basis of the Russian accounting standards as of the end of the financial year that follows its second or any subsequent financial year, at the end of which the net assets of such company were lower than its share capital, remain lower than its share capital, the company must decrease its share capital to the amount of its net assets or liquidate. In addition, if a Russian joint-stock company s net assets calculated on the basis of the Russian accounting standards as of the end of its second or any subsequent financial year are lower than the minimum amount of the share capital required by law, the company must liquidate.

Moreover, if a Russian joint-stock company fails to comply with any of the requirements stated above within six months from the end of the relevant financial year, governmental or local authorities will be able to seek involuntary liquidation of such company in court. In addition, if a Russian joint-stock company fails to comply with any of the requirements stated above within six months from the end of the relevant financial year or decreases its share capital, the company s creditors will have the right to accelerate their claims or demand early performance of the company s obligations owed to them and demand compensation of damages.

In addition, if a Russian joint-stock company s net assets calculated on the basis of the Russian accounting standards are lower than its share capital by more than 25% as of the end of three, six, nine or twelve months of the financial year that follows its second or any subsequent financial year, at the end of which the net assets of such company were lower than its share capital, a joint-stock company is obliged to make a public disclosure of this fact and certain of the company s creditors will have the right to accelerate their claims or demand early performance of the company s obligations owed to them and demand compensation of damages.

However, if a Russian joint-stock company is able to demonstrate that the creditors rights were not violated as a result of a decrease of its share capital or a decrease of the amount of its net assets, as the case may be, and that the security provided for due performance of the company s obligations is sufficient, a court may dismiss the creditors claims that are brought in the following cases: (1) in the event of a decrease of the share capital of the company, including when the share capital of the company must be decreased to the amount of its net assets in compliance with the requirements of Russian law; and (2) in the event the company s net assets calculated on the basis of the Russian accounting standards are lower than its share capital by more than 25% at the end of three, six, nine or twelve months of the financial year that followed its second or any subsequent financial year, at the end of which the net assets of such company became lower than its share capital. Moreover, the existence of negative assets, generally, may not accurately reflect the actual ability to pay debts as they come due. Some Russian courts, in deciding whether or not to order the liquidation of a company for having negative net assets, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental or local authorities may seek the liquidation of a company with negative net assets. Courts have, on rare occasions, ordered the involuntary liquidation of a company for having net assets less than the minimum share capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum share capital required by law at the time of liquidation. See Item 3. Key information Risk Factors Legal risks and uncertainties 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.

Material Contracts

The following is a description of contracts that we and/or our subsidiaries are a party to and that are or may be material to our business. These contracts are included as an exhibit to this document, see Item 19. Exhibits. The descriptions of the contracts are qualified in their entirety by reference to the relevant contracts.

Table of Contents

Credit Facility for Mechel from VTB Bank (Exhibits 4.1-4.2, 4.34)

General

On December 27, 2010, VTB Bank opened a credit line for Mechel for the total amount of 10.0 billion rubles (approximately $329.3 million) to finance our general activity. In November 2011, the amount of credit line was increased up to 13.0 billion rubles (approximately $442.2 million).

On April 10, 2013, we executed an amendment to the loan agreement increasing the amount of the facility to 40.0 billion rubles (approximately $1.3 billion). The term of the facility was extended to 5 years and the covenants were amended. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within our group (including redemption of ruble bonds). As of December 31, 2013, the facility was fully drawn.

In May 2014, we have signed with VTB Bank amendments for refinancing of the facility by extending the repayment grace period until April 2015.

Interest rate and interest period

The interest rate under the facility depends on the ratio of Mechel s net borrowings to EBITDA and ranges from 3-month Mosprime plus 2.65% to 3-month Mosprime plus 4.95% per year with a portion of interest payable quarterly and a portion being capitalized. The lender may increase the interest rate by 1% if the borrower fails to meet certain obligations under the loan agreement.

The facility has a built-in derivative instrument allowing the lender to convert the floating interest rate into the fixed one on pre-agreed terms.

Repayment and prepayments

The facility allows a 24 month grace period starting from April 2013 and is to be repaid in equal installments on a quarterly basis. Mechel may prepay the loan without VTB Bank s consent after 12 months giving a five day prior written notice. Under the new agreement, the grace period is extended until April 2015 with final repayment in April 2018.

Guarantee

Our obligations under the credit facility agreement are guaranteed by Bratsk Ferroalloy Plant, Chelyabinsk Metallurgical Plant, Mecheltrans, Mechel Trading and Mechel Service.

Security

The credit facility is secured by a pledge of 37.5%+1 share of Mechel Mining.

Covenants and other matters

For the relevant period ending on December 31, 2013, we were not in compliance with EBITDA to net interest expense ratio in respect to Mechel under the credit facility agreement. In May 2014, we obtained the waiver from the lender to cure such non-compliance.

Mechel s ratio of net borrowings to EBITDA is not tested as of June 30, 2014. Thereafter, Mechel s ratio of net borrowings to EBITDA shall not exceed 10.0:1 as of December 31, 2014, 7.5:1 as of June 30, 2015, 6.3:1 as of December 31, 2015, June 30, 2016 and December 31, 2016, 6.0:1 as of June 30, 2017 and 5.8:1 as of December 31, 2017 and thereafter, provided that if during any period the ratio of net borrowings to EBITDA is

282

3.0:1 or less, then the ratio of 3.0:1 continues to apply thereafter. Mechel s ratio of EBITDA to net interest expense shall not fall below 1.0:1 as of June 30, 2014 and December 31, 2014, 1.5:1 as of June 30, 2015, 2.0:1 as of December 31, 2015 and thereafter. Mechel s net borrowings shall not exceed $11.0 billion in 2013 and thereafter.

Mechel Mining s ratio of net borrowings to EBITDA is not tested as of June 30, 2014. Thereafter, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 8.0:1 as of December 31, 2014, 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015, 5.0:1 as of June 30, 2016 and December 31, 2016, 4.3:1 as of June 30, 2017, 3.8:1 as of December 31, 2017 and any other relevant period thereafter. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 1.2:1 as of June 30, 2014, 2.0:1 as of December 31, 2014, 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults to other debt.

The credit facility agreement is governed by Russian law.

Credit Facilities for Southern Kuzbass Coal Company from Sberbank (Exhibits 4.3-4.8, 4.9-4.15, 4.16-4.21, 4.22-4.27)

General

On October 9, 2012, Sberbank opened four credit lines to our subsidiary Southern Kuzbass Coal Company in the total amount of 24 billion rubles (approximately $772.3 million) for the purpose of working capital financing. As of December 31, 2012, we had drawn 15.1 billion rubles (approximately $497.2 million) under the credit lines. In February 2013, we received the drawdowns in rubles in the amount of 1.0 billion rubles. Due to the amendment in March 2013 we also received the drawdowns in rubles with a built-in cross-currency derivative instrument in the amount of 7.9 billion rubles. As of December 31, 2013, the facilities were fully drawn.

Interest rate and interest period

Interest is payable at a rate of 12.1% per year for the drawdowns in rubles and 10.5% per year for the drawdowns in rubles with a built-in cross-currency derivative instrument. The interest rate may be increased by 1% depending on compliance with certain conditions.

The interest is to be paid every 3 months.

Repayment and prepayments

The credit lines are provided for a period of 5 years with a 3-year grace period. Each credit line is repayable in eight equal installments starting from December 2015.

The borrower does not have the right to prepay four out of six tranches with a built-in derivative instrument in one of the loan agreements. Under the other tranches or loan agreements, the borrower can prepay any amount but has to pay prepayment fees (1.5% per annum of the repaid amount).

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel, Yakutugol and Mechel Mining.

283

Table of Contents

Covenants and other matters

Mechel Mining s ratio of net borrowings to EBITDA is not tested as of June 30, 2014. Thereafter, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 8.0:1 as of December 31, 2014, 6.5:1 as of June 30, 2015, 3.5:1 as of December 31, 2015, 3.0:1 as of June 30, 2016 and December 31, 2016, 2.5:1 as of June 30, 2017, 2.0:1 as of December 31, 2017 and any other relevant period thereafter. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 1.2:1 as of June 30, 2014, 2.0:1 as of December 31, 2014, 2.5:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter. Mechel Mining s shareholder equity, as defined in loan agreements, shall be equal to or exceed $3.0 billion.

The credit facility agreements are governed by Russian law.

Pre-Export Facility Agreements (Exhibits 4.28-4.29 for Southern Kuzbass Coal Company; Exhibits 4.30-4.31 for Yakutugol)

General

On December 6, 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total principal amount of $1.0 billion with a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc. The pre-export facility was extended to the borrowers in equal parts and was used to amend and extend the $1.0 billion pre-export facility as amended on December 7, 2012. The terms of the facility agreements are identical in all material aspects, except for the security provided under each facility.

The facility has one tranche maturing in December 2016.

Interest rate and interest period

Interest under the facilities is payable at LIBOR plus a margin, or at fixed rate that may be agreed with the lenders. Based on results for the period ending December 31, 2012, the margin levels were reset during 2013 at 5.5% per year and are subject to downward or upward adjustments based on the ratio of Mechel Mining s ratio of net borrowings to EBITDA.

Repayment and prepayments

The facility is repayable in equal monthly installments after a twelve month grace period, starting with December 2014. The borrowers are entitled to prepay the loan subject to a 10 business day prior notice to the syndicate of banks and certain other conditions specified in the credit facility agreements.

Guarantee

Yakutugol s obligations under the credit facility agreement are guaranteed in full by Mechel, Mechel Mining, Mechel Carbon, Mechel Carbon Singapore as well as by Southern Kuzbass Coal Company and Korshunov Mining Plant (for Southern Kuzbass Coal Company and Korshunov Mining Plant in the amount of up to 2% of the value of their total assets as per RAS). Southern Kuzbass Coal Company s obligations under the credit facility agreement are guaranteed in full by Mechel, Mechel Mining, Mechel Carbon, Mechel Carbon Singapore and Yakutugol, as well as by Korshunov Mining Plant (for the latter in the amount of up to 2% of the value of its total assets as per RAS). The guarantee provided by Mechel can be released subject to certain conditions.

Security

Yakutugol s obligations under the credit facility agreement are secured by a pledge of all equipment and machinery of the borrower having a balance sheet value of $10.0 million or higher and a pledge of 15%+1 share of Yakutugol and of 10% of shares of Southern Kuzbass Coal Company. Southern Kuzbass Coal Company s

obligations under the credit facility agreement are secured by a pledge of all equipment and machinery of the borrower having a balance sheet value of $10.0 million or higher and a pledge of 15%+1 share of Southern Kuzbass Coal Company and of 10% of shares of Yakutugol.

The number of shares of each of Yakutugol and Southern Kuzbass Coal Company under pledge will be decreased from 25%+1 share to 15% if certain conditions are met. Such conditions include, amongst others, the ratio of Mechel Mining s net borrowings to EBITDA being less than or equal to 2.5:1, the outstanding debt under the facility not exceeding 50% of the original principal amount and there being no event of default continuing under the facility.

The obligations of each of the borrowers are also secured by assignment of rights under their export and offtake contracts and charge over their collection accounts.

Covenants and other matters

Under the credit facility agreement, Mechel Mining may pay dividends on its common shares if its ratio of net borrowings to EBITDA is less than or equal to 3.0:1 and the aggregate amount of all dividends does not exceed 75% of Mechel Mining s net profit for the respective financial year.

Acquisitions by Mechel Mining in any given year are permitted, subject to testing of Mechel Mining s ratio of net borrowings to EBITDA as follows: (i) $500 million payable in any financial year if Mechel Mining s ratio of net borrowings to EBITDA is equal to or less than 2.5:1; (ii) $375 million payable in any financial year if Mechel Mining s ratio of net borrowings to EBITDA is between 2.5:1 and 3.0:1; (iii) $50 million payable in any financial year if Mechel Mining s ratio of net borrowings to EBITDA is between 3.0:1 and 3.5:1; (iv) $5 million payable in any financial year if Mechel Mining s ratio of net borrowings to EBITDA exceeds 3.5:1; and (v) any other higher amount if it is approved by the majority lenders and provided that Mechel Mining will continue to be in compliance with its financial covenants and no default is continuing or would arise as a consequence of such acquisition.

Mechel Mining s ratio of net borrowings to EBITDA is not tested as of June 30, 2014. Thereafter, Mechel Mining s ratio of net borrowings to EBITDA shall not exceed 8.0:1 as of December 31, 2014, 6.5:1 as of June 30, 2015, 5.2:1 as of December 31, 2015 and 5.0:1 as of June 30, 2016. Mechel Mining s ratio of EBITDA to net interest expense shall not be less than 1.2:1 as of June 30, 2014, 2.0:1 as of December 31, 2014, 2.7:1 as of June 30, 2015, 4.0:1 as of December 31, 2015 and in any relevant period thereafter. Mechel Mining s net borrowings shall not exceed $4.3 billion for the period ending on June 30, 2014 and $4.0 billion for the period ending on December 31, 2014 and thereafter, both under the condition that Mechel Mining s ratio of net borrowings to EBITDA shall exceed 3.0:1. Mechel Mining s shareholder equity shall not fall below: (i) $3.7 billion during the relevant period ending on December 31, 2013; (ii) $3.8 billion for the relevant period ending on December 31, 2014; and (iii) $4.0 billion thereafter.

The credit facility agreement contains certain customary representations and warranties, affirmative covenants, including negative pledges and limitation on lending to third parties, as well as notice provisions and events of default, including change of control and cross-defaults relating to other debt with certain limitations.

The credit facility agreement is governed by English law.

Project Finance Credit Facility for Elgaugol from Vnesheconombank (Exhibits 4.32-4.33)

General

On March 12, 2014, our subsidiary Elgaugol signed two credit facilities in aggregate amount of $2.5 billion with Vnesheconombank for the development of the Elga coal complex: (i) a facility in the amount of $2.085 billion for the total budgeted financing necessary until commissioning (the main credit line) and (ii) a facility in the amount of $418.7 million to be used for the repayment of the $150.0 million bridge loan and payment of the fees and commissions associated with the main credit line and capitalized interest during the grace period (the

Table of Contents

second credit line). The facility is structured as a project financing, with no recourse to Mechel or any group company except for Elgaugol, and therefore these loans are not included when calculating the financial covenants for Mechel and Mechel Mining under most loan agreements. The management believes that before utilization of the credit lines, this financing will be excluded from the financial covenants calculations under all relevant loan agreements. As of the date hereof, a total of $20.8 million was drawn under the facilities.

The facilities have a tenor of 13.5 years, including a repayment grace period of 3.5 years.

Interest rate and interest period

Main credit line: fixed rate of 7.5% per year for the first 60 months after the date of the loan agreement; and 6-month LIBOR plus 6% per year after the first 60 months.

Second credit line: fixed rate of 8% per year for the first 60 months after the date of the loan agreement; and 6-month LIBOR plus 6% per year after the first 60 months.

The interest is paid quarterly.

Repayment and prepayments

Identical for both facilities, first principal repayment is 42 months after the date of signing of the loan agreement and takes place on a yearly basis according to a defined schedule.

Security

The facilities are secured with share pledge of 49% of Elgaugol, pledge of Elgaugol proprietary land and land lease rights, pledge of immovable property of Elgaugol including construction in progress and pledge over of all movable property of Elgaugol with book value over 1 million rubles per unit.

Covenants and other matters

There are no financial covenants and no guarantees issued in support of these facilities.

The credit facility agreements are governed by Russian law.

Exchange Controls

The Federal Law On Currency Regulation and Currency Control, effective from June 18, 2004, as amended, sets forth certain restrictions on settlements between residents of Russia with respect to transactions involving foreign securities (including ADSs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing) within the time frame provided under the respective agreement.

Restrictions on Remittance to Non-residents

The Foreign Investments Law guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may affect investors ability to do so. Ruble dividends on shares may be paid to the depositary or its nominee and converted into U.S. dollars by the depositary for distribution to owners of ADSs without restriction. In addition, ADSs may be sold by non-residents of Russia for U.S. dollars outside Russia without regard to Russian currency control laws so long as the buyer is not a Russian resident for currency control purposes.

286

Table of Contents

Taxation

The following discussion is not intended as tax advice to any particular investor. No opinion of counsel will be issued with respect to the following discussion and, therefore, such discussion is not based on an opinion of counsel. It is also not a complete analysis or listing of all potential U.S. federal or Russian income and withholding tax consequences of ownership of shares or ADSs. We urge such holders to consult their tax advisers regarding the specific U.S. federal, state and local and Russian tax consequences of the ownership and disposition of the shares or ADSs, including their eligibility for the benefits of a double tax treaty between the Russian Federation and their country of residence, in light of their particular facts and circumstances, as well as the applicability and effect of state, regional and local tax laws and foreign tax law.

Russian Income and Withholding Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the shares and the ADSs and to the purchase, ownership and disposition of the shares and the ADSs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this document. The discussion with respect to Russian legislation is based on our understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

This summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in the shares and ADSs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to ADSs are characterized by uncertainties and by an absence of special provisions with respect to transactions involving ADSs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and a more developed taxation system. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a Russian resident holder means: (1) an individual holder of the shares and ADSs, actually present in the Russian Federation for 183 days or more in 12 consecutive months; or (2) an organization, organized under Russian law; or (3) an organization, organized under a foreign law, that holds and disposes of the shares and ADSs through its permanent establishment in Russia. Individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education, as well as for the performance of labor or other duties related to the execution of work or services at offshore raw hydrocarbon deposits.

For the purposes of this summary, a non-resident holder is a holder of the shares or ADSs which is not qualified to be a Russian resident holder as defined in the previous paragraph.

Taxation of acquisition of the shares and ADSs

No Russian tax implications should arise for holders of the shares and ADSs upon purchase of the shares and ADSs. However, under certain conditions a taxable material gain may arise for individuals if the shares and ADSs are purchased at a price below the deemed market value. Also, in certain circumstances, a Russian resident holder that is

an organization acquiring the shares or ADSs is generally obliged to act as a tax agent to withhold profit tax on proceeds from the sale of the shares or ADSs to be transferred to a non-resident holder disposing such shares or ADSs. We urge such holders to consult their tax advisers regarding specific tax consequences of acquisition of the shares or ADSs.

287

Table of Contents

Taxation of dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. In some cases, tax agent s functions are performed by other legal entities. However, the applicable withholding tax rate will depend on the status of the dividend s recipient.

Russian resident holders

Shares

Dividends paid to a Russian resident holder of the shares that is a Russian organization or an individual will be generally subject to Russian withholding tax at the rate of 9%. Dividends received by Russian organizations are subject to withholding tax at the rate of 0% provided that the recipient organization constantly owns for a period of 365 calendar days or more at least 50% of participation shares in the share capital of the paying organization or share depositary receipts qualifying for dividends equal to at least 50% of the total amount of dividends paid by the organization, as well as the acquisition cost of these shares exceeds 500 million rubles (the latter condition expired on January 1, 2011 and does not apply to dividends accrued for 2010 and subsequent periods). However it is difficult to predict how the Russian tax authorities may interpret the conditions listed above. Therefore, there can be no assurance that the 0% withholding tax rate will apply.

The effective rate of this tax may be lower than 9% (other than to non-resident companies and non-resident individuals) owing to the fact that generally this tax should be calculated by multiplying the basic tax rate (9%) by the difference between (i) the dividends to be distributed by us to our shareholders, and (ii) dividends collected by us in the current and preceding tax periods from other Russian persons (except for dividends which are taxable at the rate of 0% under the current Russian tax law).

Since 2014, when paying dividends in respect of shares that are recorded on depo account of foreign nominee holder and depo account of foreign authorized holder, the tax should be calculated and withheld by the depositary (tax agent), which opened these accounts. Effective from January 1, 2014, the reduced tax rate of 0% does not apply on dividend payments for such shares. Under Russian law, the general rate of 9% is applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, the tax rate of 30% is applied.

A holder that is a foreign organization holding the common shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without a Russian entity that distributes the dividends to such holder acting as a tax agent for withholding tax) if such holder provides the Russian entity that acts as the Russian tax agent with specific documentary evidence confirming dividend income is attributable to a permanent establishment of the holder in Russia. Such evidence includes a notarized copy of the form confirming registration of the holder with the Russian tax authorities. A notification must also be issued by the local tax authorities at the holder s place of tax registration confirming dividend income is attributable to the permanent establishment of the holder in Russia.

According to clarifications issued by the Russian tax authorities, it may be possible to claim that the reduced withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organization, based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign organization. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in

Russian tax practice, no assurance can be given that any claims for application of the reduced tax rate would not be challenged by the Russian tax authorities, hence 15% withholding tax rate would be applied by us.

ADSs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of ADSs primarily because the taxation of dividends payable under ADSs is not specifically addressed under Russian tax law.

Effective from January 1, 2014, so as to apply the tax rate of 9% when paying dividends under ADSs to residents the tax agent must be submitted with certain information in the prescribed manner and in a certain period of time. If such information has not been submitted to the tax agent, the tax rate of 30% is applied. Thus, starting from 2014, the tax agent may be obliged to withhold tax at the rate of 30% (due to the absence of the required information) and Russian holders of ADSs may be unable to use the rate of 9% provided by Russian tax law for residents.

Upon receiving dividends, Russian holders which are organizations may be required to pay additional Russian profit tax at the rate of 9% (the rate applied to dividends received from non-residents) or 20% (if the income received will not be recognized as dividends) while Russian holders who are individuals may be required to pay Russian income tax at the rate of 9% or 13% (the higher rate applies if the income received will not be recognized as a dividend for Russian tax purposes). There is also no established procedure providing for the refund of tax withheld from dividends payable through the depositary to Russian resident holders of ADSs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the ADSs.

A holder of the ADSs that is a foreign organization conducting its business through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without a Russian entity that distributes the dividends to such holder acting as a tax agent for withholding tax) if such holder provides the Russian entity that acts as the Russian tax agent with specific documentary evidence confirming dividend income is attributable to a permanent establishment of the holder in Russia. Such evidence includes a notarized copy of the form confirming registration of the holder with the Russian tax authorities. A notification must also be issued by the local tax authorities at the holder s place of tax registration confirming dividend income is attributable to the permanent establishment of the holder in Russia.

Non-resident holders

Shares

Dividends paid to non-resident holders of shares will generally be subject to Russian withholding tax, which the tax agent will withhold. Under Russian law dividends paid to a non-resident holder which is an organization or individual will be subject to Russian withholding tax at rates of 15% or 30% in certain cases. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident holder of the shares.

Since 2014, when paying dividends in respect of shares issued by Russian organizations that are recorded on depo account of foreign nominee holder, depo account of foreign authorized holder and/or depo account of depositary programs, the tax should be calculated and withheld by the depositary (tax agent), which opened these accounts. Effective from January 1, 2014, the reduced tax rate established in accordance with certain provisions of the double tax treaty does not apply on dividend payments under such shares. The general rate established by such treaty and not accounting for benefits or the rate of 15% provided by Russian law are applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied.

Thus, starting from 2014, the tax agent is obliged to withhold tax at the general rate established by the tax treaty or at the rate of 15% (in the absence of the tax treaty) or at the rate of 30% (in the absence of the required information) and non-resident holders of shares may be unable to benefit from the tax treaty. Although

non-resident holders of shares may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund.

ADSs

Comments provided in the previous section (see Taxation of dividends Non-resident holders Shares) are also applicable to ADSs. Effective from January 1, 2014, the reduced tax rate established in accordance with certain provisions of the double tax treaty does not apply on dividend payments under ADSs. The general rate established by such treaty and not accounting for benefits or the rate of 15% provided by Russian law are applied, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied.

Thus, starting from 2014, the tax agent is obliged to withhold tax at the general rate established by the tax treaty or at the rate of 15% (in the absence of the tax treaty) or at the rate of 30% (in the absence of the required information) and non-resident holders of ADSs may be unable to benefit from the tax treaty. Although non-resident holders of ADSs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund. See Tax treaty procedures below.

The dividends taxation rate may be reduced to 10% under the United States-Russia income tax treaty for U.S. non-resident holders. Under current regulations, authorization from the Russian tax authorities is not required to allow the tax agent to withhold at a reduced rate under applicable double tax treaties provided that all other requirements are met. See Tax treaty procedures.

If the tax agent is not submitted with the prescribed by the tax legislation information, it will be obliged to withhold tax at the rate of 30%. In this case, U.S. holders qualifying for a reduced rate under the United States-Russia income tax treaty may claim a refund from the Russian tax authorities within three years. There is significant uncertainty regarding the availability and timing of such refunds.

Taxation of capital gains

The following sections summarize the taxation of capital gains in respect of the disposition of the shares and ADSs.

Russian resident holders

As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including organizations and individuals) in connection with ADSs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of ADSs.

Organizations

Capital gains arising from the sale of the shares and ADSs by a Russian resident holder that is an organization will be taxable at the regular Russian corporate income tax rate of 20%. Russian tax legislation contains a requirement that a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders may be able to apply losses arising in respect of the listed shares and the ADSs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or

other disposition of securities quoted on a stock exchange and, in respect of the non-listed ADSs, from the sale, exchange or other disposition of securities not quoted on a stock exchange. Special tax rules apply to Russian organizations that hold a broker and/or dealer license.

290

Table of Contents

The Russian Tax Code also establishes special rules for the calculation of the tax base for the purposes of transactions with securities.

Individuals

Capital gains arising from the sale, exchange or other disposition of the shares and ADSs by individuals who are Russian resident holders must be declared on the holder s tax return and are subject to personal income tax at a rate of 13%.

The income in respect of sale of the shares or the ADSs by an individual is calculated as sale proceeds less documented expenses related to the purchase of these securities (including cost of securities and expenses associated with purchase, safe-keeping and sale of these securities).

Under Russian law, the acquisition value can be deducted by the source of the payment, if the sale was made by a holder through a professional trustee, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. This professional trustee, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the individual and tax withheld upon the sale of the shares and ADSs not later than April 1 of the year following the reporting year.

Non-resident holders

Organizations

Capital gains arising from the sale, exchange or other disposition of the shares and ADSs by organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, organizations that are non-resident holders of the shares and ADSs should be subject (except as described below) to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of the shares and ADSs or 20% withholding tax on the difference between the sales, exchange or other disposition price and the acquisition costs of the shares and ADSs.

However, it should be noted that the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50% of the company s assets as at the date of the sale of shares and ADSs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in such instances.

This rule does not apply to gains realized by foreign organizations from the disposition of shares of Russian organizations, as well as financial instruments derived from such shares that are treated as being traded on an organized securities market. Gains arising from the sale on foreign exchanges (foreign market operators) of securities or derivatives circulated on such exchanges are not considered Russian source income.

Where the shares and ADSs are sold by organizations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Individuals

The taxation of the income of non-resident individuals depends on whether the income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source.

Accordingly, the sale of the shares and ADSs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However the Russian tax law gives no clear indication as to how the place of sale of the shares and ADSs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is within Russia or outside of Russia.

The sale, exchange or other disposal of the shares and the ADSs by non-resident holders in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and the acquisition value of such shares and ADSs as well as other documented expenses, such as depositary expenses and broker fees, among others. Under Russian law, the acquisition value can only be deducted by the source of the payment, if the sale was made by a non-resident holder through a professional trust manager, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. Such professional trust manager, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the shares and ADSs not later than on April 1 of the year following the reporting year.

Otherwise, if the sale is made to other organizations and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his realized income and apply for a deduction of acquisition expenses (which includes filing of support documentation).

Although Russian tax law imposes this responsibility only on professional trust manager, brokers or dealers, in practice, the tax authorities may require Russian organizations or foreign companies with a permanent establishment in Russia that are not professional trust manager, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

Regardless of the residence of the purchaser, a U.S. holder which is a legal entity should not be subject to any Russian income or withholding taxes in connection with the sale, exchange or other disposition of ADSs payable from income received in 2011 and afterwards if ADSs are sold via foreign exchanges where they are legally circulated.

In some circumstances, a non-resident holder may be exempt from Russian personal income tax on the sale, exchange or other disposition of the shares and ADSs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. Under the United States-Russia income tax treaty, capital gains from the sale of the shares and/or ADSs by U.S. holders should be relieved from taxation in Russia, unless 50% or more of our assets (as the term fixed assets is used in the Russian version of the United States-Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are U.S. holders may seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the shares and/or ADSs. Regardless of the residence of the purchaser, a U.S. holder which is a legal entity should not be subject to any Russian income or withholding taxes in connection with the sale, exchange or other disposition of ADSs payable from income received in 2011 and afterwards if ADSs are sold via foreign exchanges where they are legally circulated.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See Tax treaty procedures below.

Tax treaty procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is an organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits

under an applicable tax treaty. However, a non-resident organization seeking to obtain relief from Russian withholding tax under a tax treaty must provide to a tax agent a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

292

In accordance with the Russian Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming his residency in his home country and also other supporting documentation including a statement confirming the income received and the tax paid offshore, confirmed by the foreign tax authorities. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end. A non-resident holder who is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received.

If a non-resident holder that is an organization does not obtain double tax treaty relief at the time that income is received and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require: (1) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (2) an application for the refund of the tax withheld in a format provided by the Russian tax authorities, and (3) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above and recommended for application). The Russian tax authorities will require a Russian translation of the above documents if they are prepared in a foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Since 2014, in respect of dividend payments on shares (including represented by ADSs) that are recorded on depo account of foreign nominee holder, depo account of foreign authorized holder and depo account of depositary programs, a general rate established by the double tax treaty and not accounting for benefits is applied. Refund of the overpaid tax is made to the taxpayer upon the submission to the tax authorities of the documents mentioned above, as well as the following documents: (i) document confirming the ownership of shares by the taxpayer on the date determined by the decision of the Russian company on payment of income, (ii) document confirming the amount of income actually received on shares, (iii) documents containing information about the depositary, which transferred the income on shares in favor of a foreign organization (management company), which lawfully carried out the record of rights to shares held by the taxpayer, and (iv) document confirming that the legal entity, which carried out the record of rights of share ownership on the date determined by the decision of the Russian company on payment of income, complied with additional conditions provided by Russian tax legislation or international double tax treaty for the application of the reduced tax rate when paying dividends on shares. Due to the fact that these regulations entered into force only on January 1, 2014, the practice of such refunds have not been established yet, and that is why it is not possible to exclude risks associated with a possible non-refund of the tax withheld.

A resident of the United States who is fully eligible for benefits under the United States-Russia income tax treaty is referred to in this Russian Income and Withholding Tax Considerations section as a U.S. holder. Subject to certain provisions of the United States-Russia income tax treaty relating to limitations on benefits, a person generally will be a resident of the United States for treaty purposes and entitled to treaty benefits if such person is:

liable, under the laws of the United States, for U.S. federal income tax (other than taxes in respect only of income from sources in the United States or capital situated therein) by reason of the holder s domicile,

residence, citizenship, place of incorporation, or any other similar criterion (and, for income derived by a partnership, trust or estate, residence is determined in accordance with the residence of the person liable to tax with respect to such income); and

not also a resident of the Russian Federation for purposes of the United States-Russia income tax treaty.

Table of Contents

The benefits under the United States-Russia income tax treaty discussed in this document generally are not available to United States persons who hold shares or ADSs in connection with the conduct of a business in the Russian Federation through a permanent establishment as defined in the United States-Russia income tax treaty. Subject to certain exceptions, a United States person s permanent establishment under the United States-Russia income tax treaty is a fixed place of business through which such person carries on business activities in the Russian Federation (generally including, but not limited to, a place of management, a branch, an office and a factory). Under certain circumstances, a United States person may be deemed to have a permanent establishment in the Russian Federation as a result of activities carried on in the Russian Federation through agents of the United States person. This summary does not address the treatment of those holders.

United States-Russia income tax treaty procedures

Under current rules, to claim the benefit of a reduced rate of withholding under the United States-Russia income tax treaty, a non-resident generally must provide official certification from the U.S. tax authorities of eligibility for the treaty benefits in the manner required by Russian law.

A U.S. holder may obtain the appropriate certification by mailing completed forms, together with the holder s name, taxpayer identification number, the tax period for which certification is required, and other applicable information, to the U.S. Internal Revenue Service (the **IRS**). The procedures for obtaining certification are described in greater detail in the instructions to IRS Form 8802. As obtaining the required certification from the IRS may take at least six to eight weeks, U.S. holders should apply for such certification as soon as possible.

If tax is withheld by a Russian resident on dividends or other amounts at a rate different from that provided in the tax treaty, a U.S. holder may apply for a tax refund by filing a package of documents with the Russian local tax inspectorate to which the withholding tax was remitted within three years from the withholding date for U.S. holders which are legal entities, and within one year from the withholding date for individual U.S. holders. The package should include confirmations of residence of the foreign holder (IRS Form 6166), a copy of the agreement or other documents substantiating the payment of income, documents confirming the beneficial ownership of the dividends recipient and the transfer of tax to the budget. Under the provisions of the Russian Tax Code the refund of the tax should be effected within one month after the submission of the documents. However, procedures for processing such claims have not been clearly established, and there is significant uncertainty regarding the availability and timing of such refunds.

Neither the depositary nor we will have any obligation to assist a U.S. holder of shares or ADSs with the completion and filing of any tax forms.

Stamp duty

No Russian stamp duty will be payable by the holders upon any of the transactions with the common shares or the ADSs discussed in this section (e.g., on a purchase or sale of the common shares), except for transactions involving the receipt of common shares or the ADSs by way of inheritance.

Certain U.S. Federal Income Tax Considerations

The following is a summary of material U.S. federal income tax consequences of the purchase, ownership and disposition of shares or ADSs by a U.S. Holder. Solely for purposes of this Certain U.S. Federal Income Tax Considerations section, a U.S. Holder is a beneficial owner of shares or ADSs that is, for U.S. federal income tax purposes: (1) an individual who is a citizen or resident of the United States, (2) a corporation created or organized in

or under the laws of the United States, any state thereof or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source, or (4) a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more United States persons can control all substantial trust decisions, or if the trust has a valid election in place to be treated as a United States person.

294

Table of Contents

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding shares or ADSs should consult its tax adviser regarding the associated tax consequences.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organizations; (vii) partnerships, pass-through entities, or persons that hold shares or ADSs through pass-through entities; (viii) holders that are not U.S. Holders; (ix) holders that own (directly, indirectly or constructively) 10% or more of our voting stock; (x) investors that hold shares or ADSs as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (xi) investors that have a functional currency other than the U.S. dollar and (xii) U.S. expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarized below. This summary does not address tax consequences applicable to holders of equity interests in a holder of the shares or ADSs, U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations. This summary only addresses investors that will acquire shares or ADSs in an original offering, and it assumes that investors will hold their shares or ADSs as capital assets for U.S. federal income tax purposes (generally, property held for investment).

This summary is based upon current U.S. federal income tax law, including the U.S. Internal Revenue Code of 1986 (the **Code**), its legislative history, existing, temporary and proposed regulations thereunder, published rulings and court decisions, all of which are subject to differing interpretation or change (possibly with retroactive effect), and the United States-Russia income tax treaty, which is subject to change, possibly with retroactive effect. We have not sought, and will not seek, any ruling from the IRS or any opinion of counsel with respect to the tax consequences discussed below, and we cannot provide assurance that the IRS will not take a position contrary to the tax consequences discussed below or that any position taken by the IRS would not be sustained.

The discussion below assumes that the representations contained in the deposit agreements are true and that the obligations in the deposit agreements and any related agreements have been and will be complied with in accordance with the terms.

Investors should consult their tax advisers as to the consequences under U.S. federal, estate, gift, state, local and applicable non-U.S. tax laws of the purchase, ownership and disposition of shares or ADSs.

Ownership of ADSs in general

U.S. Holders of ADSs should be treated for U.S. federal income tax purposes as owners of the underlying shares represented by those ADSs. Accordingly, except as noted, the U.S. federal income tax consequences discussed below should apply equally to U.S. Holders of ADSs and shares. A U.S. Holder s tax basis in the ADSs generally will be equal to the U.S. Holder s cost of acquiring the ADSs. No gain or loss will be recognized upon an exchange of ADS for the common share represented by that ADS. A U.S. Holder s tax basis in such common shares will be the same as the U.S. Holder s tax basis in such ADSs, and the holding period in such common shares will include the holding period in such ADSs.

Taxation of dividends on shares or ADSs

For U.S. federal income tax purposes, the gross amount of a distribution, including any Russian withholding taxes, with respect to shares or ADSs will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with U.S. federal income tax principles. Certain dividends received by non-corporate U.S. Holders should be taxed at the lower applicable capital gains rate. This

lower capital gains rate is only applicable to dividends paid by qualified foreign corporations (which term excludes PFICs, as defined below) and only with respect to shares or ADSs held for a minimum holding period (generally, 61 days during the 121-day period beginning 60 days before the ex-dividend date). A company will be a qualified foreign corporation if: (a) it is eligible for the benefits of an applicable United States income tax treaty; or (b) the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States. Non-corporate U.S. Holders are strongly urged to consult their tax advisers as to the applicability of the lower capital gains rate to dividends received with respect to shares or ADSs. Distributions in excess of our current and accumulated earnings and profits will be applied against and will reduce a U.S. Holder s tax basis in shares or ADSs and, to the extent in excess of such tax basis, will be treated as gain from a sale or exchange of such shares or ADSs and will be treated as described under Taxation on sale or other disposition of shares or ADSs below. We do not intend to calculate our earnings and profits for U.S. federal income tax purposes and, unless we make such calculations, U.S. Holders should expect that any distributions with respect to shares or ADSs generally will be reported to them as a dividend, even if that distribution would otherwise be treated as a return of capital or as a capital gain pursuant to the rules described above. Such dividends will not be eligible for the dividends received deduction allowed to corporations.

If a dividend distribution is paid in rubles, the amount includible in income will be the U.S. dollar value of the dividend, calculated using the exchange rate in effect on the date the dividend is includible in income by the U.S. Holder, regardless of whether the payment is actually converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange rate fluctuations during the period from the date the dividend is includible in the income of the U.S. Holder to the date the rubles are converted into U.S. dollars will be treated as ordinary income or loss. U.S. Holders should be required to recognize foreign currency gain or loss on the receipt of a refund of Russian withholding tax pursuant to the United States-Russia income tax treaty to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Russian withholding tax under the United States-Russia income tax treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for a U.S. foreign tax credit against the U.S. federal income tax liability of the U.S. Holder or, at the election of the U.S. Holder, may be deducted in computing taxable income. If, however, the holder of an ADS is not treated as the owner of the underlying shares represented by the ADS for U.S. federal income tax purposes, then Russian withholding tax would not be treated as a foreign income tax eligible for a U.S. foreign tax credit as described in the preceding sentence. If Russian tax is withheld at a rate in excess of the applicable rate under the United States-Russia income tax treaty, a U.S. foreign tax credit for the excess amount may not be allowed to be claimed, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain.

For U.S. foreign tax credit purposes, a dividend distribution will be treated as foreign source income and will generally be classified as passive category income but could, in the case of certain U.S. Holders, constitute general category income. The rules relating to the determination of the U.S. foreign tax credit, or deduction in lieu of the U.S. foreign tax credit, are complex and U.S. Holders should consult their tax advisers with respect to those rules.

Taxation on sale or other disposition of shares or ADSs

The sale or other disposition of shares or ADSs will generally result in the recognition of gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted basis in such shares or ADSs. Such gain or loss generally will be treated as long-term capital gain or loss if the shares or ADSs have been held for more than one year. Capital gains of non-corporate U.S. Holders derived from capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to significant limitations. The maximum federal tax rate for long-term capital gains is 20%.

296

U.S. Holders that are individuals, estates and certain trusts are subject to an additional 3.8% Medicare tax on all or a portion of their net investment income for the relevant taxable year, which may include dividends on, and capital gains from the sale or other disposition of, the shares and ADSs, to the extent of their net investment income that, when added to their other modified adjusted gross income, exceeds a certain threshold.

Deposits and withdrawals of shares by U.S. Holders in exchange for ADSs should not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain or loss realized on the sale or other disposition of shares or ADSs will generally be treated as U.S. source income and therefore the use of U.S. foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. U.S. Holders are strongly urged to consult their tax advisers as to the availability of tax credits for any Russian taxes withheld on the sale or other disposition of shares or ADSs.

If a U.S. Holder receives any foreign currency on the sale or other disposition of shares or ADSs, such U.S. Holder generally will realize an amount equal to the U.S. dollar value of such foreign currency on the settlement date of such sale or other disposition if (1) such U.S. Holder is a cash basis or electing accrual basis taxpayer and the shares or ADSs are treated as being traded on an established securities market or (2) such settlement date is also the date of such sale or other disposition. If the foreign currency so received is converted to U.S. dollars on the settlement date, such U.S. Holder should not recognize foreign currency gain or loss on such conversion. If the foreign currency so received is not converted into U.S. dollars on the settlement date, such U.S. Holder will have a basis in such foreign currency equal to its U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of such foreign currency generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes. Each U.S. Holder should consult its tax adviser regarding the U.S. federal income tax consequences of receiving foreign currency from the sale or other disposition of shares or ADSs.

Passive foreign investment company status

A non-U.S. company is a passive foreign investment company (**PFIC**) in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (1) at least 75% of its gross income is passive income or (2) at least 50% of the average value of its assets (based on an average of the quarterly values of the assets) is attributable to assets that produce or are held to produce passive income. We believe, and the foregoing discussion assumes, that for U.S. federal income tax purposes, we were not a PFIC for the taxable year ending in 2013, we will not be a PFIC for the current taxable year and we will not become a PFIC in the future. However, the PFIC determination is made annually and may involve facts that are not within our control. In addition, there are special requirements that apply to income from the sale and ownership of commodities that need to be satisfied in order for amounts attributable to commodities to be treated as non-passive. If we were classified as a PFIC at any time that you hold our ADSs and shares, you may be subject to materially adverse U.S. federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of U.S. tax on distributions and gains on the sale or disposition of the ADSs and shares as well as being subject to additional U.S. tax filing requirements. Additionally, dividends paid by the company to non-corporate U.S. holders would not be eligible for the special reduced rate of tax described above under Taxation of dividends on shares or ADSs. You should consult your tax advisers as to the consequences of an investment in a PFIC.

Information reporting and backup withholding

U.S. Holders may be subject to the information reporting requirements of the Code, as well as to backup withholding on the payment of dividends on, and the proceeds received from the disposition of, shares or ADSs. Backup

withholding may apply if a U.S. Holder: (1) fails to furnish its taxpayer identification number (**TIN**), which, in the case of an individual, is his or her social security number; (2) fails to provide certification of exempt status; (3) is notified by the IRS that he has failed properly to report payments of interest and dividends;

297

(4) under certain circumstances, fails to certify, under penalties of perjury, that he has furnished a correct TIN or we have been notified by the IRS that such U.S. Holder is subject to backup withholding for failure to furnish a correct TIN; or (5) otherwise fails to comply with the applicable requirements of the backup withholding rules. U.S. Holders should consult their tax advisers regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption, if applicable.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder s federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing all required information.

A U.S. person that transfers property (including cash) to us in exchange for the shares or ADSs may be required to file a Form 926 or a similar form with the IRS. In the event a U.S. person fails to file such form, such U.S. person could be subject to a penalty of up to 10% of the fair market value of the property transferred, subject to a $100,000 limit so long as the failure was not due to intentional disregard.

Recently enacted legislation may require individual U.S. Holders to report to the IRS certain information with respect to their beneficial ownership of specified foreign financial assets if the aggregate value of such assets exceeds certain dollar thresholds. A specified foreign financial asset includes, among other things, any depositary or custodial accounts at foreign financial institutions, and to the extent not held in an account at a financial institution, (1) stocks or securities issued by non U.S. persons, and (2) any interest in a non-U.S. entity. Penalties may be imposed for the failure to disclose such information regarding specified foreign financial assets. You should consult your tax advisors concerning the application of the information reporting and backup withholding rules to their particular circumstances.

Documents on Display

The documents that are exhibits to or incorporated by reference in this document can be read at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at +1 800-SEC-0330. These filings are also available at the website maintained by the SEC at *www.sec.gov*.

Some of our reports and other information can also be inspected at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

Glossary

Blast furnace: A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt pig iron from ore. Its name comes from the blast of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.

Carbon steel: A type of steel generally having no specified minimum quantity of any alloying element and containing only an incidental amount of any element other than carbon, silicon, manganese, copper, sulfur and phosphorus.

CIF: Cost, Insurance and Freight, a commercial term pursuant to which the seller must pay the costs, insurance and freight necessary to bring the goods to the named port of destination but the risk of loss or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

Coils: Steel sheet that has been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.

Continuous casting: A method of pouring steel directly from a ladle through a tundish, shaped to form billets or slabs. Continuous casting avoids the need for blooming mills for rolling billets into slabs. Continuous cast metal solidifies in a few minutes, versus several hours for an ingot. As a result of this, the chemical composition and mechanical properties are more uniform.

FCA: Free Carrier, a commercial term pursuant to which the seller must deliver the goods, cleared for export, to the carrier nominated by the buyer at the named place. Costs for transportation and risk of loss transfer to the buyer after delivery to the carrier.

Flat-rolled steel/Flat products: Category of steel that includes sheet and strip, among others.

FOB: Free on Board, a commercial term pursuant to which the buyer bears all costs and risks of loss of or damage to the goods from the point the goods pass the ship s rail at the named point of shipment.

Galvanized steel: Steel coated with a layer of zinc to provide corrosion resistance in underbody auto parts, garbage cans, storage tanks, fencing wire, etc. Sheet steel normally must be cold-rolled prior to galvanizing. Galvanized steel is subdivided into hot-dipped galvanized and electrogalvanized steel.

Hot-rolled: Section that is sold in its as-produced state off the hot mill with no additional treatment, aside from being pickled and oiled (if specified).

Magnetic separator: A device used in a process when magnetically susceptible mineral is separated from gangue minerals by applying a strong magnetic field.

Pipes: Tubes used to transport fluids or gases. Pipe and tube are often used interchangeably, with a given label applied primarily as a matter of historical use.

Probable reserves: In accordance with the JORC Code, those reserves which are the economically mineable part of the indicated mineral resources. Indicated reserves include all minerals conforming to the thickness and depth limits defined in the resource base, and for which known data points are not more than 2,000 meters apart. In accordance with the USGS, reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Proved/Proven reserves: In accordance with the JORC Code, those reserves which are the economically mineable part of the measured mineral resources. Measured mineral resources means the tonnages of in-situ minerals contained in seams or sections of seams for which sufficient information is available to enable detailed or conceptual mine planning. In accordance with the USGS, reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling, and (2) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

Raw steel: Steel in primary form of hot molten metal.

Rebar or Reinforcement bar: Round rolled products of plain or die-rolled sections of various types and classes used to strengthen concrete in highway and building construction.

Reserve: In accordance with the JORC Code, virgin and/or accessed parts of a mineral resource base, which could be economically extracted or produced at the time of determination, considering environmental, legal and technological constraints. In accordance with the USGS, that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

Table of Contents

Rolled steel (products): Steel with certain forms and geometric dimensions manufactured by drafting metal between rotary rolls of rolling mills.

Run-of-mine, or ROM coal: Coal that has not undergone the processes of classification and washing.

Saleable coal: Coal that has undergone the processes of classification and washing.

Scrap (Ferrous): Ferrous (iron-containing) material that generally is remelted and recast into new steel in electric arc furnaces. Integrated steel mills also use scrap metal for up to 25% of their basic oxygen furnace charge. Scrap metal includes waste steel generated from within metal-processing plants and steel mills through edge trimming and rejects.

Sections: Blooms or billets that are hot-rolled in a rolling mill to manufacture rounds, squares, bands, among other structural shapes, L , U , T or I shapes. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, engineering and transport industries.

Semi-finished steel: Steel shapes (for example, blooms, billets or slabs) that later are rolled into finished products such as beams, bars or sheet.

Sheet steel: Thin, flat-rolled steel created in a hot-strip mill by rolling a cast slab flat while maintaining the side dimensions. The malleable steel lengthens to several thousand feet as it is squeezed by the rolling mill. The most common differences among steel bars, strip, plate and sheet are merely their physical dimensions of width and gauge (thickness).

Sintering: A process that combines iron-bearing particles into small chunks. Previously, these materials were too fine to withstand the air currents of the smelting process in the blast furnace and were thrown away. The iron is now conserved in sinter because the chunks of sinter are charged into the blast furnace.

Slab: The most common type of semi-finished steel. Traditional slabs measure 13-35 centimeters thick, 75-300 centimeters wide and are usually about 6-12 meters long, while the output of the recently developed thin slab casters is approximately five centimeters thick. After casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.

Special steel: Alloyed steel produced by the addition of various metals (e.g., manganese) in small quantities during the steel-making process to improve mechanical properties such as strength and resistance to stress. Special steels are intermediary products between standard steel grades and stainless steel alloys (with a high content of nickel and chrome). Special steel products are typically used as long products (e.g., special bar quality, bearing steel, tool steel and high-speed steel).

Tailings: Material rejected from a mine after the valuable minerals have been recovered.

Welded mesh: Cold-rolled or drawn wire cuts of certain length welded together at specified distances in longitudinal and traverse directions into sheets of rectangular shapes.

Wire rod: Round, semi-finished steel that is rolled from a billet and coiled for further processing. Wire rod is commonly drawn into wire or used to tie bundles. Wire rod rolling mills (rolling facilities) can run as fast as 6,000 meters per minute.

300

Table of Contents

Item 11. ***Quantitative and Qualitative Disclosures about Market Risk***

In the normal course of business, our financial position is routinely subject to a variety of risks. We are exposed to market risks associated with foreign currency exchange rates, interest rates and commodity prices. We are also subject to the risks associated with the business environment in which we operate, including the collectibility of accounts receivable.

We do not enter into hedging transactions to manage the risks specified above.

We do not hold or issue derivative financial instruments for trading purposes.

Currency Risk

The functional currencies for our Russian, Ukrainian, Kazakh, Turkish, Romanian, Bulgarian and other European subsidiaries are the Russian ruble, the Ukrainian hryvnia, the Kazakh tenge, the Turkish lira, the Romanian lei, the Bulgarian lev and euro, respectively. The U.S. dollar is the functional currency of our other international operations. Our reporting currency is the U.S. dollar.

In July 2011, our wholly-owned subsidiary Skyblock Limited entered into a non-deliverable cross currency 5 billion rubles swap with VTB Bank (Austria) AG. The termination date of the swap is August 28, 2015. The instrument in respect of which the swap is contracted is a 5 billion rubles bonds issued by our group on September 7, 2010. The bonds are due on September 3, 2015. The bonds bear a coupon with 10% interest rate per annum. VTB Bank (Austria) AG agrees to pay to Skyblock Limited 10% interest on 5 billion rubles notional amount. Skyblock Limited agrees to pay to VTB Bank (Austria) AG 5.69% interests on $176.4 million notional amount. Interest is paid on a semi-annual basis with the first payment on March 2, 2012. On the termination date VTB Bank (Austria) AG agrees to pay to Skyblock Limited the notional amount of 5 billion rubles, and Skyblock Limited agrees to pay to VTB Bank (Austria) AG the notional amount of $176.4 million. The business objective of this instrument is the decrease in the effective interest rate on 5 billion rubles bonds for the year ending December 31, 2013 via positive net cash inflow from interest payments under the swap instrument according to our expectations about U.S. dollar and ruble exchange rate fluctuations. The swap instrument was not designated as hedge for accounting purposes.

In October 2012, Southern Kuzbass Coal Company entered into a cross currency option with Sberbank. As at December 31, 2012, the option is contracted in respect of three facilities amounting in total to 13.0 billion rubles (approximately $428.0 million), and its expiry date is October 6, 2017. As at December 31, 2013, the option is contracted in respect of four facilities amounting in total to 20.9 billion rubles (approximately $638.5 million), and its expiry date is October 6, 2017. The ruble-denominated facilities bear floating interest rate of 10.5-11.5% per annum (subject to fulfillment of 37.5% ratio between the amount of the groups revenue credited on Sberbank s accounts and the amount of liability under the facility agreement). The option is designed to convert the ruble notional amount into U.S. dollars at a pre-determined strike exchange rate (6.5 billion rubles at the exchange rate of 31.04 rubles per 1 U.S. dollar, 5.0 billion rubles at the exchange rate of 30.80 rubles per 1 U.S. dollar, 1.5 billion rubles at the exchange rate of 31.00 rubles per 1 U.S. dollar, 7.9 billion rubles at the exchange rate of 30.64 rubles per 1 U.S. dollar) when the barrier exchange rate (indicated at Reuters) achieves 50 rubles per 1 U.S. dollar. Simultaneously, the interest rate is modified into floating 10.0-11.0% per annum (subject to fulfillment of 37.5% ratio between the amount of the groups revenue credited on Sberbank s accounts and the amount of liability under the facility agreement). After the triggering event, all future payments will be in U.S. dollars. The business objective of this instrument is the decrease of interest rate on the ruble-denominated facilities according to our expectations about U.S. dollar and ruble exchange rate fluctuations. The swap instrument was not designated as hedge for accounting purposes.

In the past we entered into forward transactions to buy U.S. dollars for euros to hedge our exposure to movements in foreign currency exchange rates arising in relation to euro-denominated accounts receivable of our trading subsidiaries. These derivatives were not designated as hedging contracts for accounting purposes. As of December 31, 2013, we did not have any forward transactions.

Table of Contents

We are exposed to movements in the ruble and euro exchange rates relative to the U.S. dollar, our reporting currency. The following table sets forth our monetary assets and liabilities by currency as of December 31, 2013.

Balance as of December 31, 2013	U.S. Dollar	Ruble	Euro	Lei	Other	Total
			(In thousands of U.S. dollars)			
Current Assets:						
Cash and cash equivalents	213,376	21,642	19,243		14,264	268,525
Accounts receivable, net	116,239	376,545	56,399	9,125	32,146	590,454
Due from related parties	1,796	39,418	53		11	41,278
Deferred income taxes	13,014	20,978	467		513	34,972
Current assets of discontinued operations					147,521	147,521
Prepayments and other current assets	27,871	274,225	9,017	2,683	3,028	316,824
Total current assets[1]	372,296	732,808	85,179	11,808	197,483	1,399,574
Current Liabilities:						
Short-term borrowings and current portion of long-term debt	(492,837)	(834,064)	(145,000)		(13,011)	(1,484,912)
Accounts payable and accrued expenses:						
Advances received	(19,355)	(67,316)	(435)	(210)	(4,338)	(91,654)
Accrued expenses and other current liabilities	(126,440)	(223,412)	(6,838)	(33)	(3,068)	(359,791)
Taxes and social charges payable	(22,288)	(248,782)	(2,113)	(84)	(4,654)	(277,921)
Unrecognized income tax benefit	(397)	(77,935)				(78,332)
Trade payables to vendors of goods and services	(77,310)	(806,668)	(36,606)	(2,911)	1,438	(922,057)
Pension obligations, current portion	(1,813)	(15,885)	(1,723)			(19,421)
Due to related parties		(105,439)	(170)		(1,334)	(106,943)
Asset retirement obligation, current portion		(2,001)				(2,001)
Deferred income taxes		(37,775)				(37,775)
Current liabilities of discontinued operations	(50,467)	(737)			(35,359)	(86,563)
Finance lease liabilities, current portion	(61)	(121,654)	(1,097)		(3)	(122,815)
Dividends payable		(3,293)				(3,293)
Total current liabilities	(790,968)	(2,544,961)	(193,982)	(3,238)	(60,329)	(3,593,478)
Long-term Liabilities:						
Long-term debt, net of current portion	(2,530,659)	(4,522,426)	(467,132)			(7,520,217)
Pension obligations, net of current portion	(47,421)	(80,038)	(15,232)			(142,691)

Asset retirement obligation, net of current portion	(6,568)	(50,567)				(57,135)
Deferred income taxes	(576,892)	(497,803)	(8,124)			(1,082,819)
Finance lease liabilities, net of current portion	(10)	(295,765)	(1,110)			(296,885)
Other long-term liabilities	(306,494)	(18,120)	(113)		(4,738)	(329,465)
Total long-term liabilities	(3,468,044)	(5,464,719)	(491,711)		(4,738)	(9,429,212)
Net monetary assets (liabilities)	(3,886,716)	(7,571,230)	(600,579)	8,570	132,494	(11,917,461)

(1) Does not include inventories, deferred costs of inventory in transit and advances issued to third parties and related parties.

Table of Contents

The table below summarizes our debt position by currency and rate method as of December 31, 2013.

	U.S. Dollar	Ruble	Euro	Tenge	Turkish Lira	Total
	(In thousands of U.S. dollars)					
Fixed-rate debt	1,266,853	3,706,255	50,187	10,416	468	5,034,179
Variable-rate debt	1,756,643	1,650,236	561,946		2,125	3,970,950
Total debt	3,023,496	5,356,491	612,133	10,416	2,593	9,005,129

Interest Rate Risk

Our interest rate exposure results mainly from debt obligations. As of December 31, 2013, we had $5,034.2 million in fixed-rate borrowings and $3,971.0 million in variable-rate borrowings.

We have not entered into transactions designed to hedge against interest rate risks, which may exist in connection with our current or future indebtedness. We monitor the market and assess our options for hedging interest rate risks and may enter into such arrangements in the future.

The table below presents the principal cash flows and related range of interest rates, by contractual maturity dates, of our fixed-rate debt obligations as of December 31, 2013.

	Contractual Maturity Date as of December 31,							Annual Interest Rate (Actual at December 31, 2013)
	Currency	2014	2015	2016	2017	Thereafter	Total	
	(In thousands of U.S. dollars)							
Fixed-rate U.S. dollar debt:								
Gazprombank	USD		166,667	203,705	386,779	197,651	954,802	7.5
Alfa-Bank	USD	150,000					150,000	10.9
Uralsib	USD		10,000				10,000	7.3
VEB	USD				33,348		33,348	8.0
Other	USD	111,763	5,428	796	716		118,703	5.1-9.0
Total		261,763	182,095	204,501	420,843	197,651	1,266,853	
Fixed-rate euro debt:								
Uralsib	EUR	12,366	35,724				48,090	6.8
Other	EUR	361	361	275	275	825	2,097	1.6-2.3

Total		12,727	36,085	275	275	825	50,187	
Fixed-rate ruble debt:								
Bonds	RUR	176,113	528,278	508,665	50,358	42,889	1,306,303	8.0-13.0
Gazprombank	RUR	196,761	598,576	156,882	40,331		992,550	9.0-11.0
Sberbank	RUR	177,460	358,221	342,028	252,884	89,619	1,220,212	10.1-14.6
VTB	RUR	23,546	15,749	20,998	20,998	10,499	91,790	9.7
EBR	RUR	28,529	28,529	14,264			71,322	11.5
Other	RUR	23,889	189				24,078	7.5-10.0
Total		626,298	1,529,542	1,042,837	364,571	143,007	3,706,255	
Fixed-rate tenge debt:								
Sberbank	KZT	10,416					10,416	9.5
Total		10,416					10,416	
Fixed-rate Turkish lira debt:								
Other	TRY	468					468	8.5
Total		468					468	
Total debt:		911,672	1,747,722	1,247,613	785,689	341,483	5,034,179	

303

Table of Contents

The table below presents the principal cash flows and related range of interest rates, by contractual maturity dates, of our variable-rate debt obligations as of December 31, 2013.

	Currency	Contractual Maturity Date as of December 31, 2014	2015	2016	2017	Thereafter	Total	Average Annual Interest Rate (Actual at December 31, 2013)
				(In thousands of U.S. dollars)				
Variable-rate U.S. dollar debt:								
Syndicated Loan	USD	40,158	481,903	481,903			1,003,964	5.7
Gazprombank	USD	42,000	61,111	255,198	42		358,351	5.5
UniCredit (formerly Bayerische Hypo-und-Vereinsbank)	USD	51,429					51,429	3.0
Fortis	USD	28,158	28,158	28,158	28,158	56,316	168,948	7.1
Sberbank	USD		20,000	25,000	25,000	30,000	100,000	6.3
Raiffeisenbank	USD	43,250					43,250	5.7
Other	USD	26,079	2,310	2,312			30,701	1.7-3.8
Total		231,074	593,482	792,571	53,200	86,316	1,756,643	
Variable-rate euro debt:								
Fortis	EUR	45,954	43,333	44,667	43,332	116,742	294,028	1.6-5.7
ING	EUR	7,839	6,840	6,840	6,840	19,485	47,844	1.6-1.9
UniCredit (formerly Bayerische Hypo-und-Vereinsbank)	EUR	13,931	18,074	9,501	8,600	17,199	67,305	2.0-4.8
VTB	EUR	44,929					44,929	5.4
Gazprombank	EUR			37,098			37,098	4.4
Raiffeisenbank	EUR	4,035	4,104	2,121			10,260	2.5
Other	EUR	15,586	11,932	10,381	10,170	12,413	60,482	1.1-5.7
Total		132,274	84,283	110,608	68,942	165,839	561,946	
Variable-rate ruble debt:								
VTB	RUR	207,767	492,697	379,909	379,909	189,954	1,650,236	10.6-12.1
Total		207,767	492,697	379,909	379,909	189,954	1,650,236	
Variable-rate Turkish lira:								
Other	TRY	2,125					2,125	9.0
Total		2,125					2,125	

Total debt:	573,240	1,170,462	1,283,088	502,051	442,109	3,970,950

The carrying amounts of short-term loans approximate their fair values due to their short maturity. As of December 31, 2013, the fair value of variable and fixed rate long-term loans (based on future cash flows discounted at current long-term market rates available for corporations) was as follows:

	Carrying Value Including Interest Accrued as of December 31, 2013	**Fair Value as of December 31, 2013**
	(In thousands of U.S. dollars)	
Russian ruble-denominated debt	4,582,365	4,262,088
U.S. dollar-denominated debt	2,545,557	2,422,450
Euro-denominated debt	470,487	402,607
Total long-term debt	7,598,409	7,087,145

304

Table of Contents

Commodity Price Risk

In the normal course of our business, we are primarily exposed to market risk of price fluctuations related to the purchase, production and sale of steel products, and to a lesser extent, to the purchase, production and sale of coal, coke and other products.

We do not use commodity derivatives or long-term, fixed-price sales contracts to manage our commodity price risks.

Equity Price Risk

We also have minor investments in shares of Russian companies that are not publicly traded and, accordingly, their market values are not available. We consider that it is not practicable for us to estimate the fair values of these investments because we have not yet obtained or developed the valuation models necessary to make the estimates, and the cost of obtaining an independent valuation is believed by management to be excessive considering the significance of the investments. Accordingly, these investments are omitted from the risk information disclosure presented herein.

We do not use derivative instruments or any other arrangements to manage our equity price risks.

Item 12. *Description of Securities Other than Equity Securities*

Depositary Fees and Charges

Our common American Depositary Shares, or common ADSs, each representing one common share, are traded on the NYSE under the symbol MTL. The common ADSs are evidenced by common American Depositary Receipts, or common ADRs, issued by Deutsche Bank Trust Company Americas, as depositary (**DBTCA**) under the Deposit Agreement, dated as of July 27, 2004, among Mechel OAO, Deutsche Bank Trust Company Americas, and holders and beneficial owners of common ADSs, as amended on May 21, 2007 and May 19, 2008. Common ADS holders are required to pay the following service fees to DBTCA:

Service	Fees (In U.S. dollars)	
Issuance of common ADSs	Up to $	0.05 per common ADS
Cancellation of common ADSs	Up to $	0.05 per common ADS
Distribution of cash dividends or other cash distributions	Up to $	0.02 per common ADS
Distribution of common ADSs pursuant to (1) stock dividends, free stock distributions or (2) exercises of rights to purchase additional common ADSs or distribution of proceeds thereof	Up to $	0.05 per common ADS
Distribution of securities other than common ADSs or rights to purchase additional common ADSs or the distribution of proceeds thereof	Up to $	0.05 per common ADS
Common ADR transfer, combination or split-up fee		$1.50 per transfer
Share register inspection annual fee		$0.01 per common ADS
Operation and maintenance annual fee		$0.02 per common ADS*

* This fee, when combined with the fees for cash distributions, shall not exceed $0.02 per common ADS per year.

305

Table of Contents

Our preferred American Depositary Shares, or preferred ADSs, each representing one-half of a preferred share, are traded on the NYSE under the symbol MTL PR. The preferred ADSs are evidenced by preferred American Depositary Receipts, or preferred ADRs, issued by DBTCA under the Deposit Agreement, dated as of May 12, 2010, among Mechel OAO, Deutsche Bank Trust Company Americas, and holders and beneficial owners of preferred ADSs. Preferred ADS holders are required to pay the following service fees to DBTCA:

Service	Fees (In U.S. dollars)	
Issuance of preferred ADSs	Up to $	0.05 per preferred ADS
Cancellation of preferred ADSs	Up to $	0.05 per preferred ADS
Distribution of cash dividends or other cash distributions	Up to $	0.02 per preferred ADS
Distribution of preferred ADSs pursuant to (1) stock dividends, free stock distributions or (2) exercises of rights to purchase additional preferred ADSs or distribution of proceeds thereof	Up to $	0.05 per preferred ADS
Distribution of securities other than preferred ADSs or rights to purchase additional preferred ADSs or the distribution of proceeds thereof	Up to $	0.05 per preferred ADS
Preferred ADR transfer, combination or split-up fee		$1.50 per transfer
Share register inspection annual fee		$0.01 per preferred ADS
Operation and maintenance annual fee		$0.02 per preferred ADS*

* This fee, when combined with the fees for cash distributions, shall not exceed $0.02 per preferred ADS per year. In addition, holders of ADSs may also be charged for the following expenses: (1) taxes and governmental charges; (2) cable, telex and facsimile transmission and delivery charges; (3) transfer or registration fees of the Russian share registrar; (4) fees or charges of DBTCA for conversion of foreign currency into U.S. dollars; and (5) expenses of DBTCA in connection with the issuance of definitive certificates.

Holders of ADSs are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities underlying the ADSs. DBTCA may refuse to transfer the ADSs or to allow holders to withdraw the deposited securities underlying their ADSs until such payment is made, or it may deduct the amount of taxes owed from any payments to ADS holders. It may also sell deposited securities, by public or private sale, to pay any taxes owed. ADS holders will remain liable if the proceeds of the sale are not enough to pay the taxes. If DBTCA sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

Depositary Payments for 2011, 2012 and 2013

In consideration for its appointment as depositary, DBTCA agreed to reimburse us for costs of the maintenance of our ADS programs and of ADS-programs related investor relations activities. For the years ended December 31, 2011, 2012 and 2013, DBTCA reimbursed us $4.667 million, $1.725 million and $0.881 million in regard to our common ADS-program. In 2010, DBTCA has also paid us upfront $2.494 million in regard to our 5-year preferred ADS-program.

Table of Contents

In addition, for the years ended December 31, 2011, 2012 and 2013, DBTCA made the following payments on our behalf in relation to our ADS programs:

	Payment (In U.S. dollars) For the Year Ended December 31,		
Category	**2011**	**2012**	**2013**
NYSE listing fees	100,459	85,197	83,140
Proxy solicitation expenses	20,000	20,000	54,925
ADS holder identification expenses	15,000	30,000	34,591
Full targeting project	20,000		
Perception study	25,000		
BD corporate	5,000	5,000	11,000
Total	185,459	140,197	183,656

In addition, DBTCA waived the cost of various ADR programs-related support services that it provided to us in 2013, 2012 and 2011. DBTCA had valued these services at $237,500 per annum for common ADSs when DBTCA was re-appointed in 2008 and $190,000 per annum for preferred ADSs when DBTCA was appointed in 2010. Under certain circumstances, including early termination of the appointment of DBTCA, we would be required to repay to DBTCA some or all of the payments made to us or on our behalf (including fees waived by it) since its appointment.

307

Table of Contents

PART II

Item 13. ***Defaults, Dividend Arrearages and Delinquencies***

None.

Item 14. ***Material Modifications to the Rights of Security Holders and Use of Proceeds***

None.

Item 15. ***Controls and Procedures***

(a) Disclosure Controls and Procedures

As required by Rules 13a-15f and 15d-15f under the Securities Exchange Act of 1934, management has evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and other procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Based on the evaluation of the company s disclosure controls and procedures as of December 31, 2013, the company s disclosure controls and procedures were effective.

(b) Management s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our Board of Directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override.

308

Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 using the framework set forth in the report of the Treadway Commission s Committee of Sponsoring Organizations (COSO), Internal Control Integrated Framework (2013). Based on the assessment, our management believes our company maintained effective internal control over financial reporting as of December 31, 2013.

Ernst & Young LLC, an independent registered public accounting firm, has audited our consolidated financial statements and has also issued an attestation report on our management s assessment of internal controls, a copy of which appears below.

(c) Report of Independent Registered Public Accounting Firm

The Shareholders and the Board of Directors of Mechel OAO

We have audited Mechel OAO, an open joint-stock company, and subsidiaries (hereinafter referred to as the **Group**) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Group s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

309

Table of Contents

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Group as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2013, of the Group and our report dated May 15, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLC

Moscow, Russia

May 15, 2014

(d) Remediation Activities and Changes in Internal Control over Financial Reporting

There have been no material changes in our internal control over financial reporting identified in the evaluation required by Rule 13a-15f or Rule 15d-15f of the Exchange Act that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. ***Audit Committee Financial Expert***

Our Board of Directors has determined that Roger Gale, chairman of our Audit Committee, is an audit committee financial expert. Mr. Gale is independent in accordance with SEC Rule 10A-3. For a description of Mr. Gale s experience, see Item 6. Directors, Senior Management and Employees Directors and Executive Officers.

Item 16B. ***Code of Ethics***

We have adopted a code of business conduct and ethics that applies to our directors, officers and employees. It is available at *www.mechel.com* and *www.mechel.ru*. Hard copies of our code of business conduct and ethics are available free of charge to any person upon request. In order to request a hard copy, please send an inquiry to *ir@mechel.com* indicating postal address to which the hard copies should be sent and a contact person.

Item 16C. ***Principal Accountant Fees and Services***

Ernst & Young LLC has served as our independent registered public accountants for each of the fiscal years in the three year period ended December 31, 2013, for which audited financial statements appear in this Annual Report on Form 20-F. The following table presents the aggregate fees for professional services and other services rendered by Ernst & Young LLC in 2013 and 2012, respectively.

	Year Ended December 31,	
	2013	**2012**
	(In thousands of U.S. dollars, net of VAT)	
Audit Fees	5,098.2	6,072.9
Audit-related Fees		
Tax Fees	3.9	36.2

Other Fees		
Total	5,102.1	6,109.1

Audit Fees

The amount of audit fees includes fees necessary to perform an audit or interim review in accordance with the standards of the Public Company Accounting Oversight Board (United States) and services that generally only the independent auditor can reasonably provide, such as comfort letters, statutory audits, attest services, consents and assistance with, and review of, documents filed with the SEC.

310

Table of Contents

Audit-related Fees

This category usually includes assurance and related services that are typically performed by the independent auditor. More specifically, these services could include, among others, employee benefit plan audits, IT-related audits, consultation concerning financial accounting and reporting standards.

Tax Fees

Tax services include, among others, tax consultation related to proposed and consummated transactions, restructuring, personal taxation and general tax consultation.

Other Fees

Other fees include subscription and training fees.

Audit Committee Pre-Approval Policies and Procedures

The Sarbanes-Oxley Act of 2002 required that we implement a pre-approval process for all engagements with our independent public accountants. In compliance with Sarbanes-Oxley requirements pertaining to auditor independence, our Audit Committee pre-approves the engagement terms and fees of Ernst & Young LLC for all audit and non-audit services, including tax services. All audit and tax services rendered by Ernst & Young LLC in 2013 were approved by the Audit Committee before Ernst & Young LLC was engaged for such services. No services of any kind were approved pursuant to a waiver permitted pursuant to 17 CFR 210.2-01(c)(7)(i)(C).

Item 16D. *Exemptions from the Listing Standards for Audit Committees*

None.

Item 16E. *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

We did not repurchase any of our shares, GDSs or ADSs in 2013.

Item 16F. *Change in Registrant s Certifying Accountant*

Not applicable.

Item 16G. *Corporate Governance*

The NYSE permits us to follow certain home country corporate governance practices, which differ from those required for U.S. companies under the NYSE Listed Company Manual. The following table sets forth the most important differences between the NYSE corporate governance requirements for U.S. companies under the NYSE Listed Company Manual Section 303A and our current practices.

Table of Contents

NYSE Corporate Governance Rules for U.S. Companies	Our Corporate Governance Practices
A majority of directors must be independent, as determined by the board. (Section 303A.01 and 02).	We comply with this requirement, although it is not required for foreign private issuers like Mechel.
Non-management directors must meet at regularly scheduled executive sessions without management. (Section 303A.03).	Our Bylaw on the Board of Directors, which is posted in the Corporate Governance section of our corporate website, provides that before each meeting of the board of directors, independent directors shall hold a consultation in the absence of management.
Listed companies must have a nominating/corporate governance and a compensation committee, each composed entirely of independent directors and having a written charter specifying the committee s purpose and responsibilities, as well as annual performance evaluation of the committee. (Section 303A.04 and 05).	We have a Committee on Appointments and Remuneration, which has four independent members. The Bylaw on Appointments and Remuneration Committee of the Board of Directors is posted in the Corporate Governance section of our corporate website.
Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. (Section 303A.06).	We comply with this requirement.
Audit committee must have a minimum of three members and have a written charter specifying the committee s purpose, an annual performance evaluation and its duties and responsibilities. (Section 303A.07(a) and(b)).	Our Audit Committee has three members. The Bylaw on the Audit Committee of the Board of Directors is posted in the Corporate Governance section of our corporate website.
Listed companies must have an internal audit function. (Section 303A.07(c)).	We have an Internal Control and Audit Department. The Bylaw on the Internal Control and Audit Department is posted in the Corporate Governance section of our corporate website.
Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto. (Section 303A.08).	As a Russian company, we are subject to the mandatory requirements of the Russian Joint-Stock Companies Law. The items on which shareholders can vote cannot be altered.
Listed companies must adopt and disclose corporate governance guidelines. (Section 303A.09).	Our corporate governance guidelines are reflected in our various corporate documents, such as the Bylaw on the Board of Directors and the Code of Corporate Governance, all of which are posted in the Corporate Governance section of our website.
Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. (Section 303A.10).	Our Code of Business Conduct and Ethics is posted in the Corporate Governance section of our website.

Item 16H. ***Mine Safety Disclosure***

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) if the Dodd-Frank Wall Street Reform and Consumer Protection Act or this Item 16H is included in Exhibit 16.

PART III

Item 17. ***Financial Statements***

See instead Item 18. Financial Statements.

Item 18. ***Financial Statements***

The following financial statements, together with the report of Ernst & Young LLC, are filed as part of this annual report on Form 20-F.

Index to the Consolidated Financial Statements	F-2
Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-4
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	F-6
Consolidated Statements of Equity for the years ended December 31, 2013, 2012 and 2011	F-8
Notes to the Consolidated Financial Statements	F-9

Table of Contents

Item 19. ***Exhibits***

Exhibit No.	Description
1.1	Charter of Mechel OAO (new version) registered on July 18, 2013
1.2	Amendment to Charter of Mechel OAO registered on October 24, 2013
4.1	Amendment Agreement No. 4 dated April 10, 2013 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation)
4.2	Amendment Agreement No. 5 dated February 7, 2014 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation)
4.3	Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.4	Amending Agreement No. 1 dated December 5, 2012 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.5	Novation Agreement No. 5593 dated December 5, 2012 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.6	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.7	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.8	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 5593 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.9	Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.10	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.11	Amending Agreement No. 2 dated March 4, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.12	

	Novation Agreement No. 5594 dated March 4, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.13	Amending Agreement No. 3 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.14	Amending Agreement No. 4 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)

314

Table of Contents

Exhibit No.	Description
4.15	Amending Agreement No. 5 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 5594 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.16	Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.17	Novation Agreement No. 8507 dated October 9, 2012 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.18	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.19	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.20	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.21	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 8507 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.22	Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.23	Novation Agreement No. 8508 dated October 9, 2012 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.24	Amending Agreement No. 1 dated December 27, 2012 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.25	Amending Agreement No. 2 dated August 9, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.26	Amending Agreement No. 3 dated September 27, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.27	Amending Agreement No. 4 dated December 19, 2013 to Non-Revolving Loan Facility Agreement No. 8508 dated October 9, 2012 between Southern Kuzbass Coal Company OAO and Sberbank of Russia (English translation)
4.28	

	Amendment and Restatement Agreement dated December 4, 2012 made between Southern Kuzbass Coal Company Open Joint Stock Company and the Mandated Lead Arrangers, the Original Lenders, the New Lenders, the Facility Agent, the Security Agent, the Joint & Several Creditor, the Original Special Rate Providers and the Special Rate Agent
4.29	Amendment Agreement dated December 3, 2013 made between Southern Kuzbass Coal Company Open Joint Stock Company and the Facility Agent

315

Table of Contents

Exhibit

No.	Description
4.30	Amendment and Restatement Agreement dated December 4, 2012 made between OJSHC Yakutugol and the Mandated Lead Arrangers, the Original Lenders, the New Lenders, the Facility Agent, the Security Agent, the Joint & Several Creditor, the Original Special Rate Providers and the Special Rate Agent
4.31	Amendment Agreement dated December 3, 2013 made between OJSHC Yakutugol and the Facility Agent
4.32	Credit Facility Agreement No. 110100/1400 dated March 12, 2014 between the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) and the Elgaugol OOO (English translation)
4.33	Credit Facility Agreement No. 110100/1401 dated March 12, 2014 between the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) and the Elgaugol OOO (English translation)
4.34	Amendment Agreement No. 6 dated May 14, 2014 to Facility Agreement No. 2640 dated December 27, 2010 by and between VTB Bank (open joint stock company) and Mechel OAO (English translation)
8.1	Subsidiaries of Mechel
12.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
16	Mine Safety Disclosure
101	The following financial information formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2013 and 2012 (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013, 2012 and 2011, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Equity for the years ended December 31, 2013, 2012 and 2011, and (vi) Notes to the Consolidated Financial Statements*

* Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section II or 12 of the U.S. Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the U.S. Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

We hereby agree to furnish to the Securities and Exchange Commission, upon its request, copies of any instruments defining the rights of holders of long-term debt issued by us or any of our consolidated subsidiaries.

316

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

MECHEL OAO

By: /s/ OLEG V. KORZHOV
Name: Oleg V. Korzhov
Title: *Chief Executive Officer*

Date: May 15, 2014

317

Table of Contents

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2013, 2012 and 2011

F-1

Table of Contents

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

CONSOLIDATED STATEMENTS OF EQUITY FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

F-2

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors

Mechel OAO

We have audited the accompanying consolidated balance sheets of Mechel OAO, an open joint stock company, and subsidiaries (hereinafter referred to as the Group) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 15, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLC

Moscow, Russia

May 15, 2014

Table of Contents

MECHEL OAO

Consolidated Balance Sheets

(in thousands of U.S. dollars, except share amounts)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	**4**	**$ 268,525**	$ 293,569
Accounts receivable, net of allowance for doubtful accounts of $81,233 in 2013 and $72,614 in 2012	**5**	**590,454**	700,525
Due from related parties, net of allowance of $1,623,661 in 2013 and $919,113 in 2012	**9**	**56,792**	420,462
Inventories	**6**	**1,376,995**	1,999,936
Deferred income taxes	**19**	**34,972**	28,253
Current assets of discontinued operations	**3(c)**	**147,521**	1,883,191
Prepayments and other current assets	**7**	**377,379**	482,107
Total current assets		**2,852,638**	5,808,043
Long-term investments in related parties	**8**	**7, 604**	7,853
Other long-term investments	**8**	**14,787**	14,484
Property, plant and equipment, net	**10**	**6,836,246**	7,178,366
Mineral licenses, net	**11**	**3,271,018**	3,455,120
Other non-current assets	**12**	**159,388**	165,836
Deferred income taxes	**19**	**5,066**	55,080
Goodwill	**3(e)**	**687,763**	782,815
Non-current assets of discontinued operations	**3(c)**		227,706
Total assets		**$ 13,834,510**	$ 17,695,303
LIABILITIES AND EQUITY			
Short-term borrowings and current portion of long-term debt	**13**	**$ 1,484,912**	$ 1,436,232
Accounts payable and accrued expenses:			
Trade payable to vendors of goods and services		**922,057**	1,005,532
Advances received		**91,654**	122,824
Accrued expenses and other current liabilities		**359,791**	331,281
Taxes and social charges payable		**277,921**	305,912
Unrecognized income tax benefits	**19**	**78,332**	20,202
Due to related parties	**9**	**106,943**	191,505
Asset retirement obligations, current portion	**15**	**2,001**	4,928
Deferred income taxes	**19**	**37,775**	38,485
Current liabilities of discontinued operations	**3(c)**	**86,563**	429,049
Pension obligations, current portion	**16**	**19,421**	19,155
Dividends payable		**3,293**	3,086
Finance lease liabilities, current portion	**17**	**122,815**	132,071

Total current liabilities		**3,593,478**	4,040,262
Long-term debt, net of current portion	**13**	**7,520,217**	7,921,655
Asset retirement obligations, net of current portion	**15**	**57,135**	43,792
Pension obligations, net of current portion	**16**	**142,691**	166,831
Deferred income taxes	**19**	**1,082,819**	1,218,945
Finance lease liabilities, net of current portion	**17**	**296,885**	347,700
Due to related parties	**9**	**21**	
Long-term liabilities of discontinued operations	**3(c)**		47,487
Commitments and contingencies	**25**		
Other long-term liabilities		**329,444**	368,974
EQUITY			
Common shares (10 Russian rubles par value; 497,969,086 shares authorized, 416,270,745 shares issued and outstanding as of December 31, 2013 and 2012)	**18**	**133,507**	133,507
Preferred shares (10 Russian rubles par value; 138,756,915 shares authorized, 83,254,149 shares issued and outstanding as of December 31, 2013 and 2012)	**18**	**25,314**	25,314
Additional paid-in capital		**834,118**	845,215
Accumulated other comprehensive loss		**(47,601)**	(326,933)
(Accumulated deficit) retained earnings		**(427,863)**	2,500,278
Equity attributable to shareholders of Mechel OAO		**517,475**	3,177,381
Noncontrolling interests	**3(f)**	**294,345**	362,276
Total equity		**811,820**	3,539,657
Total liabilities and equity		**$ 13,834,510**	$ 17,695,303

See accompanying notes to consolidated financial statements

F-4

Table of Contents

MECHEL OAO

Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands of U.S. dollars, except share and per share amounts)

	Notes	Year ended December 31, 2013	2012	2011
Revenue, net (including related party amounts of $237,071, $738,317 and $882,877 during 2013, 2012 and 2011, respectively)	**24**	**$ 8,576,431**	**$ 10,630,932**	$ 12,287,327
Cost of goods sold (including related party amounts of $594,421, $844,214 and $1,612,001 during 2013, 2012 and 2011, respectively)		**(5,962,744)**	**(7,323,467)**	(8,010,254)
Gross profit	**24**	**2,613,687**	**3,307,465**	4,277,073
Selling, distribution and operating expenses:				
Selling and distribution expenses		**(1,725,305)**	**(1,714,027)**	(1,705,674)
Taxes other than income tax	**20**	**(128,659)**	**(118,673)**	(94,609)
Accretion expense	**15**	**(5,014)**	**(4,369)**	(5,897)
Loss on write-off of property, plant and equipment	**10**	**(17,829)**	**(10,048)**	(10,635)
Impairment of goodwill and long-lived assets	**23**	**(38,310)**	**(402,355)**	
Provision for amounts due from related parties	**9**	**(714,181)**	**(919,113)**	
Provision (recovery of provision) for doubtful accounts		**(9,655)**	**(26,846)**	1,227
General, administrative and other operating expenses, net	**21**	**(503,835)**	**(534,763)**	(583,244)
Total selling, distribution and operating expenses, net		**(3,142,788)**	**(3,730,194)**	(2,398,832)
Operating (loss) income		**(529,101)**	**(422,729)**	1,878,241
Other income and (expense):				
Income from equity investments	**8**	**3,589**	**475**	304
Interest income		**7,339**	**70,456**	16,780
Interest expense		**(742,042)**	**(652,665)**	(551,302)
Foreign exchange gain (loss)		**(164,691)**	**108,830**	(141,957)
Other (expenses) income, net	**22**	**(85,848)**	**29,432**	(4,381)
Total other income and (expense), net		**(981,653)**	**(443,472)**	(680,556)
(Loss) income from continuing operations, before income tax	**19**	**(1,510,754)**	**(866,201)**	1,197,685
Income tax expense	**19**	**(53,642)**	**(192,845)**	(366,212)

Net (loss) income from continuing operations		**(1,564,396)**	**(1,059,046)**	831,473
Loss from discontinued operations, net of income tax	**3(c)**	**(1,358,571)**	**(605,839)**	(28,026)
Net (loss) income		**(2,922,967)**	**(1,664,885)**	803,447
Less: Net (income) loss attributable to noncontrolling interests	**3(f)**	**(5,047)**	**317**	(75,562)
Net (loss) income attributable to shareholders of Mechel OAO		**(2,928,014)**	**(1,664,568)**	727,885
Less: Dividends on preferred shares	**18**	**(127)**	**(79,056)**	(78,281)
Net (loss) income attributable to common shareholders of Mechel OAO		**$ (2,928,141)**	**$ (1,743,624)**	$ 649,604
Net (loss) income		**$ (2,922,967)**	**$ (1,664,885)**	$ 803,447
Currency translation adjustment		**(96,848)**	**70,893**	(170,794)
Transfer of currency translation adjustment due to disposal of subsidiaries		**340,014**		
Change in pension benefit obligation		**8,244**	**(17,778)**	(7,160)
Adjustment of available-for-sale securities		**2,171**	**(300)**	(2,245)
Comprehensive (loss) income		**(2,669,386)**	**(1,612,070)**	623,248
Comprehensive loss (income) attributable to noncontrolling interests		**20,704**	**(22,851)**	(50,527)
Comprehensive (loss) income attributable to shareholders of Mechel OAO		**$ (2,648,682)**	**$ (1,634,921)**	$ 572,721
Basic and diluted (loss) earnings per share:				
(Loss) earnings per share from continuing operations	**18**	**$ (3.77)**	**$ (2.79)**	$ 1.63
Loss per share effect from discontinued operations		**(3.26)**	**(1.40)**	(0.07)
Net (loss) earnings per share	**18**	**$ (7.03)**	**$ (4.19)**	$ 1.56
Weighted average number of shares outstanding	**18**	**416,270,745**	**416,270,745**	416,270,745

See accompanying notes to consolidated financial statements

Table of Contents

MECHEL OAO

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

	Notes	Year ended December 31, 2013	2012	2011
Cash Flows from Operating Activities				
Net (loss) income from continuing operations		**(1,564,396)**	**(1,059,046)**	831,473
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by operating activities:				
Depreciation		**393,693**	**382,698**	341,888
Depletion and amortization		**83,267**	**92,767**	129,270
Foreign exchange loss (gain)		**164,691**	**(108,830)**	141,957
Deferred income taxes	**19**	**(55,236)**	**(47,719)**	19,354
Provision (recovery of provision) for doubtful accounts		**9,655**	**26,846**	(1,227)
Change in inventory reserves	**6**	**(3,368)**	**31,865**	20,199
Accretion expense	**15**	**5,014**	**4,369**	5,897
Loss on write-off of property, plant and equipment	**10**	**17,829**	**10,048**	10,635
Income from equity investments	**8**	**(3,589)**	**(475)**	(304)
Impairment of goodwill and long-lived assets	**23**	**38,310**	**402,355**	
Provision for amounts due from related parties	**9**	**714,181**	**919,113**	
Non-cash interest on pension liabilities	**16**	**10,552**	**10,598**	13,333
Loss (gain) on sale of property, plant and equipment		**2,245**	**(6,569)**	(7,566)
Change in asset retirement obligations		**(7,123)**	**(4,439)**	(5,833)
Gain on accounts payable with expired legal term	**22**	**(1,737)**	**(3,158)**	(5,338)
Loss on disposal of subsidiaries	**22**	**76,814**		
Gain on forgiveness of fines and penalties	**22**	**(2,550)**	**(2,777)**	(47)
Amortization of loan origination fee		**51,017**	**50,211**	52,014
Loss resulting from accretion and remeasurement of contingent liability	**14**	**2,053**	**1,906**	1,760
Pension benefit plan curtailment gain	**16**	**(1,560)**	**(1,360)**	(38,711)
Pension service cost, amortization of prior service cost and actuarial (gain) loss, other expenses	**16**	**4,257**	**4,010**	5,021
Changes in working capital items, net of effects from acquisition of new subsidiaries:				
Accounts receivable		**59,690**	**46,879**	(321,082)
Inventories		**507,083**	**577,120**	(803,760)
Trade payable to vendors of goods and services		**92,285**	**71,507**	251,078
Advances received		**(27,371)**	**(56,538)**	(62,995)
Accrued taxes and other liabilities		**90,768**	**20,281**	25,246
Settlements with related parties		**(484,359)**	**(179,298)**	345,932
Other current assets		**29,649**	**57,980**	(40,343)
Dividends received			**25,956**	

Unrecognized income tax benefits		**61,230**	**17,598**	(2,285)
Net operating cash flows of discontinued operations		**60,538**	**29,733**	(22,674)
Net cash provided by operating activities		**323,532**	**1,313,631**	882,892
Cash Flows from Investing Activities				
Acquisition of DEMP, less cash acquired		**(66,049)**	**(32,810)**	(70,044)
Acquisition of Cognor, less cash acquired	**3(a)**		**(24,172)**	
Acquisition of Lomprom Rostov, less cash acquired	**3(b)**		**(24)**	

Continued on next page

Table of Contents

MECHEL OAO

Consolidated Statements of Cash Flows (continued)

(in thousands of U.S. dollars)

	Notes	Year ended December 31, 2013	2012	2011
continued from previous page				
Acquisition of Port Vanino		**(662,911)**		
Disposal of Port Vanino		**664,006**		
Advance payment received in association with sale of TPP Rousse shares			**2,640**	
Acquisition of other subsidiaries, less cash acquired		**894**		(5,643)
Capital contribution in affiliates				(571)
Proceeds from disposal of investments in affiliates			**2,998**	6
Proceeds from disposal of securities		**1,111**		
Short-term loans issued and other investments		**(1,524)**	**(4,447)**	(1,089,850)
Proceeds from disposal of TPP Rousse, less cash disposed of		**27,506**		
Proceeds from disposal of Oriel, less cash disposed of		**414,197**		
Cash of other subsidiaries, disposed of, less proceeds from disposal		**(731)**		
Proceeds from short-term loans issued		**7,328**	**217,786**	353,620
Proceeds from disposals of property, plant and equipment		**15,366**	**22,602**	20,273
Prepayment for the participation in auction				(7,869)
Purchases of mineral licenses and other related payments		**(2,238)**	**(6,079)**	(23,088)
Purchases of property, plant and equipment		**(555,864)**	**(956,263)**	(1,761,280)
Net investing cash flows of discontinued operations		**(20,680)**	**(61,368)**	(33,786)
Net cash used in investing activities		**(179,589)**	**(839,137)**	(2,618,232)
Cash Flows from Financing Activities				
Proceeds from borrowings		**2,962,143**	**3,951,043**	5,891,730
Repayment of borrowings		**(2,945,494)**	**(4,199,765)**	(3,530,275)
Dividends paid		**(222)**	**(186,443)**	(210,233)
Dividends paid to noncontrolling interest		**(7,496)**	**(29,054)**	
Acquisition of noncontrolling interest in subsidiaries	**3(f)**	**(45,536)**	**(632)**	(283)
Repayment of obligations under finance lease		**(140,821)**	**(149,237)**	(99,269)
Sale leaseback proceeds		**74,340**	**3,143**	35,049
Net financing cash flows of discontinued operations		**(58,985)**	**(181,061)**	(7,685)

Net cash (used in) provided by financing activities		**(162,071)**	**(792,006)**	2,079,034
Effect of exchange rate changes on cash and cash equivalents		**(5,328)**	**(27,874)**	(41,115)
Net (decrease) increase in cash and cash equivalents		**(23,456)**	**(345,386)**	302,579
Cash and cash equivalents at beginning of period	**4**	**297,993**	**643,379**	340,800
Cash and cash equivalents at end of period	**4**	**$ 274,537**	**$ 297,993**	$ 643,379
Supplementary Cash Flow Information				
Interest paid, net of amount capitalized		**$ 642,546**	**$ 548,858**	$ 531,527
Income taxes paid		**$ 57,741**	**$ 212,962**	$ 529,844
Non-cash Activities				
Acquisition of equipment under finance lease		**$ 53,163**	**$ 131,846**	$ 427,000

See accompanying notes to consolidated financial statements

F-7

Table of Contents

MECHEL OAO

Consolidated Statements of Equity

rs, except share	Notes	Common shares		Preferred shares		Additional paid-in capital	Accumula-ted other comprehen-sive (loss) income	Retained earnings (accumulated deficit)	Equity attributable to share-holders of Mechel OAO	N i
		Shares	Amount	Shares	Amount					
, 2010		416,270,745	$ 133,507	83,254,149	$ 25,314	$ 847,137	$ (201,416)	$ 3,826,519	**$ 4,631,061**	$
								727,885	**727,885**	
reholders of	**18**							(208,650)	**(208,650)**	
justment							(145,759)		**(145,759)**	
or-sale securities							(2,245)		**(2,245)**	
t obligation							(7,160)		**(7,160)**	
olling interests	**3(f)**					(1,143)			**(1,143)**	
, 2011		416,270,745	$ 133,507	83,254,149	$ 25,314	$ 845,994	$ (356,580)	$ 4,345,754	**$ 4,993,989**	$
								(1,664,568)	**(1,664,568)**	
reholders of	**18**							(180,908)	**(180,908)**	
ncontrolling										
justment							47,725		**47,725**	
or-sale securities							(300)		**(300)**	
t obligation							(17,778)		**(17,778)**	
olling interests wnership of oup	**3(f)**					(779)			**(779)**	
, 2012		416,270,745	$ 133,507	83,254,149	$ 25,314	$ 845,215	$ (326,933)	$ 2,500,278	**$ 3,177,381**	$
								(2,928,014)	**(2,928,014)**	
reholders of	**18**							(127)	**(127)**	
ncontrolling										
slation l of subsidiaries							340,014		**340,014**	
justment							(71,097)		**(71,097)**	
or-sale securities							2,171		**2,171**	

t obligation								8,244		**8,244**
olling interests wnership of oup	**3(f)**						(11,097)			**(11,097)**
, 2013		416,270,745	$ 133,507	83,254,149	$ 25,314	$ 834,118	$ (47,601)	$ (427,863)	**$**	**517,475**

See accompanying notes to consolidated financial statements

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

1. GENERAL

(a) Formation

Mechel OAO (Mechel , formerly Mechel Steel Group OAO) was incorporated on March 19, 2003, under the laws of the Russian Federation in connection with a reorganization to serve as a holding company for various steel and mining companies owned by two individual shareholders (the Controlling Shareholders). The Controlling Shareholders, directly or through their affiliates, either acquired existing companies or established new companies, at varying dates from 1995 through March 19, 2003, which were contributed to Mechel after its formation. Mechel and its subsidiaries are collectively referred to herein as the Group . Set forth below is a summary of the Group s primary subsidiaries:

Name of subsidiary	Registered in	Core business	Date control acquired/ date of incorporation (*)	Interest in voting stock held by the Group at December 31,		
				2013	2012	2011
Mechel International Holdings GmBH (MIH)[1]	Switzerland	Holding and trading	July 1, 1995	100.0%	100.0%	100.0%
Mechel Metal Supply AG (MMS)[2]	Liechtenstein	Trading	Oct 30, 2000			100.0%
Mechel Trading House (MTH)	Russia	Trading	June 23, 1997	100.0%	100.0%	100.0%
Southern Kuzbass Coal Company (SKCC)	Russia	Coal mining	Jan 21, 1999	96.6%	96.6%	96.6%
Tomusinsk Open Pit Mine (TOPM)	Russia	Coal mining	Jan 21, 1999	74.7%	74.5%	74.5%
Chelyabinsk Metallurgical Plant (CMP)	Russia	Steel products	Dec 27, 2001	94.2%	94.2%	94.2%
Southern Urals Nickel Plant (SUNP)	Russia	Nickel	Dec 27, 2001	84.1%	84.1%	84.1%
Vyartsilya Metal Products Plant (VMPP)	Russia	Steel products	May 24, 2002	93.3%	93.3%	93.3%
	Russia	Steel products	June 14, 2002	91.5%	91.5%	91.4%

Beloretsk Metallurgical Plant (BMP)						
Mechel Targoviste S.A.[3]	Romania	Steel products	Aug 28, 2002		86.6%	86.6%
Ural Stampings Plant (USP)	Russia	Steel products	April 24, 2003	93.8%	93.8%	93.8%
Korshunov Mining Plant (KMP)	Russia	Iron ore mining	Oct 16, 2003	90.0%	85.6%	85.6%
Mechel Campia Turzii S.A.[3]	Romania	Steel products	June 20, 2003		86.6%	86.6%
Mechel Nemunas (MN)	Lithuania	Steel products	Oct 15, 2003	100.0%	100.0%	100.0%
Mechel Energo	Russia	Power trading	Feb 3, 2004	100.0%	100.0%	100.0%
Port Posiet	Russia	Transportation	Feb 11, 2004	97.1%	97.1%	97.1%
Kaslinsky Architectural Art Casting Plant	Russia	Steel products	April 14, 2004	100.0%	100.0%	100.0%
Izhstal	Russia	Steel products	May 14, 2004	90.0%	90.0%	88.4%
Port Kambarka	Russia	Transportation	April 27, 2005	90.4%	90.4%	90.4%
Mechel Service	Russia	Trading	May 5, 2005	100.0%	100.0%	100.0%
Mechel Trading Ltd.	Switzerland	Trading	Dec 20, 2005	100.0%	100.0%	100.0%

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Name of subsidiary	Registered in	Core business	Date control acquired/ date of incorporation (*)	Interest in voting stock held by the Group at December 31,		
				2013	2012	2011
Metals Recycling	Russia	Scrap collecting	March 14, 2006	100.0%	100.0%	100.0%
Moscow Coke and Gas Plant (Moskoks)	Russia	Coke production	Oct 4, 2006	99.5%	99.5%	99.5%
Southern Kuzbass Power Plant (SKPP)	Russia	Power generation	April 19, 2007	98.3%	98.3%	98.3%
Kuzbass Power Sales Company (KPSC)	Russia	Power sales	June 30, 2007	72.1%	72.1%	72.1%
Bratsk Ferroalloy Plant (BFP)	Russia	Ferroalloy production	Aug 6, 2007	100.0%	100.0%	100.0%
Yakutugol	Russia	Coal mining	Oct 19, 2007	100.0%	100.0%	100.0%
Mechel-Carbon	Switzerland	Trading	April 2, 2008	100.0%	100.0%	100.0%
Ductil Steel S.A. (Ductil Steel)[3]	Romania	Steel products	April 8, 2008		100.0%	100.0%
Oriel Resources Ltd. (Oriel)	Great Britain	Holding	Apr 17, 2008	100.0%	100.0%	100.0%
Tikhvin Ferroalloy Plant (TFP)[4]	Russia	Ferrochrome production	Apr 17, 2008		100.0%	100.0%
Voskhod Mining Plant[5]	Kazakhstan	Chrome mining	Apr 17, 2008		100.0%	100.0%
Mechel Mining OAO[6]	Russia	Holding	April 18, 2008	100%[6]	98.69%	98.69%
HBL Holding GmbH (HBL)	Germany	Trading	Sept 26, 2008	100.0%	100.0%	100.0%
Mechel Remservice	Russia	Repairs	Feb 9, 2009	100.0%	100.0%	100.0%
The BCG Companies	USA	Coal mining	May 7, 2009	100.0%	100.0%	100.0%
Laminorul S.A.[3]	Romania	Steel products	Feb 25, 2010		90.9%	90.9%
Ramateks	Turkey	Trading	June 18, 2010	100.0%	100.0%	100.0%
Toplofikatsia Rousse (TPP Rousse)[7]	Bulgaria	Power generation	Dec 9, 2010		100.0%	100.0%
Mechel Mining Trading House	Russia	Trading	May 19, 2011	100.0%	100.0%	100.0%
Invicta Merchant Bar[8]	Great Britain	Steel products	Aug 22, 2011		100.0%	100.0%

Donetsk Electrometallurgical Plant (DEMP)	Ukraine	Steel products	Dec 22, 2011	100.0%	100.0%	100.0%
Cognor Stahlhandel GmBH (Cognor)	Austria	Trading	Sept 25, 2012	100.0%	100.0%	
Lomprom Rostov[9]	Russia	Scrap processing	Nov 22, 2012		100.0%	

* Date, when a control interest was acquired or a new company established by either the Group or Controlling Shareholders.

1 Formerly Mechel Trading AG (MT). Renamed on December 20, 2005.

2 Mechel Metal Supply Limited (MMS) was liquidated on December 17, 2012.

3 Mechel Targoviste S.A., Mechel Campia Turzii S.A., Ductil Steel S.A. and Laminorul S.A. were disposed of on February 15, 2013.

4 Tikhvin Ferroalloy Plant was disposed of on December 27, 2013.

5 Voskhod Mining Plant, which includes Voskhod-Oriel, Voskhod-Chrome and Voskhod-Trading, was disposed of on December 27, 2013.

6 Interest in voting stock of Mechel Mining OAO is 99.999995% as of December 31, 2013.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

7 Toplofikatsia Rousse was disposed of on July 5, 2013.
8 Invicta Merchant Bar was disposed of on July 18, 2013.
9 Lomprom Rostov was disposed of on July 17, 2013.

(b) Controlling Shareholders and reorganization

From 1995 until December 2006, the Controlling Shareholders acted in concert pursuant to a written Ownership, Control and Voting Agreement, which requires them to vote all shares of Mechel s subsidiaries owned by them in the same manner. The establishment of the Group in March 2003 involved the contribution of certain of the above subsidiaries, acquired before March 19, 2003, by the Controlling Shareholders to Mechel in exchange for all the outstanding capital stock of Mechel, forming a new holding company via an exchange of shares.

As a result of this restructuring, the Controlling Shareholders maintained their original equal ownership in the subsidiaries through Mechel and Mechel became a direct holder of the stock of the subsidiaries.

Shareholders in each of Mechel s subsidiaries before the restructuring who were not Controlling Shareholders did not contribute any shares in these subsidiaries to Mechel in exchange for its shares and were considered as outside the control group, and these shareholders retained a noncontrolling interest in the subsidiaries. Thus, to the extent noncontrolling interests existed in the entities under common control prior to March 19, 2003, such noncontrolling interests did not change as a result of the formation of Mechel and the reorganization of the Group.

During 2006, one of the Controlling Shareholders sold all his Mechel s stock to the other Controlling Shareholder, and the Ownership, Control and Voting Agreement was terminated on December 21, 2006.

(c) Basis of presentation

The formation of Mechel and contribution of the subsidiaries shares into Mechel s capital represents a reorganization of entities under common control, and accordingly, has been accounted for in a manner similar to a pooling for the periods presented.

(d) Business

The Group operates in four business segments: steel (comprising steel and steel products), mining (comprising coal, iron ore and coke), ferroalloy (comprising nickel, chrome and ferrosilicon) and power (comprising electricity and heat

power), and conducts operations in Russia, Ukraine, Turkey, Kazakhstan, the USA and Europe. The Group sells its products within Russia and foreign markets. Through acquisitions, the Group has added various businesses to explore new opportunities and build an integrated steel, mining, ferroalloy and power group. The Group operates in a highly competitive and cyclical industry; any local or global downturn in the industries may have an adverse effect on the Group s results of operations and financial condition. The Group will require a significant amount of cash to fund capital improvement programs and business acquisitions. While the Group will utilize funds from operations, it expects to continue to rely on capital markets and other financing sources for its capital needs.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

Russian affiliates and subsidiaries of the Group maintain their books and records in Russian rubles and prepare accounting reports in accordance with the accounting principles and practices mandated by Russian Accounting Regulations (RAR). Foreign subsidiaries and affiliates maintain their books and records in different foreign functional currencies and prepare accounting reports in accordance with generally accepted accounting principles (GAAP) in various jurisdictions. The financial statements and accounting reports for the Group and its subsidiaries and affiliates for the purposes of preparation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) have been translated and adjusted on the basis of the respective standalone Russian statutory or other GAAP financial statements.

The accompanying consolidated financial statements differ from the financial statements issued for Russian statutory and other GAAP purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP. The principal adjustments relate to: (1) purchase accounting; (2) recognition of interest expense and certain operating expenses; (3) valuation and depreciation of property, plant and equipment and mineral licenses; (4) pension benefit obligations; (5) foreign currency translation; (6) deferred income taxes; (7) accounting for tax penalties; (8) revenue recognition; (9) valuation allowances for unrecoverable assets, and (10) recording investments at fair value.

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of all majority owned subsidiaries where no noncontrolling interests or group of noncontrolling interests exercises substantive participating rights. Investments in companies that the Group does not control, but has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method. Accordingly, the Group s share of net earnings and losses from these companies is included in the consolidated income statements as income from equity investments. All other investments in equity securities are recorded at cost and adjusted for impairment, if any. Intercompany profits, transactions and balances have been eliminated in consolidation.

Effective January 1, 2010, the Group adopted required changes to consolidation guidance for variable interest entities that require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. These changes to the consolidation guidance defined the primary beneficiary of a variable interest entity as the enterprise that has (1) the power to direct the activities of a

variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, the required changes provide guidance on shared power and joint venture relationships, remove the scope exemption for qualified special purpose entities, revise the definition of a variable interest entity, and require additional disclosures.

The adoption of the above mentioned changes to consolidation guidance did not have any impact on the consolidated financial statements of the Group. The Group does not have significant consolidated variable interest entities.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(c) Business combinations

The Group accounts for its business acquisitions according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations (ASC 805), and FASB ASC 810, Consolidation (ASC 810). The Group applies the acquisition method of accounting and recognizes the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, based on their respective estimated fair values measured as of that date. Determining the fair value of assets acquired and liabilities assumed requires management s judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, license and other asset lives and market multiples, among other items.

(d) Goodwill

Goodwill represents the excess of the consideration transferred plus the fair value of any noncontrolling interests in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. For the acquisitions with the effective date before January 1, 2009, the excess of the fair value of net assets acquired over cost, known as negative goodwill, was allocated to the acquired non-current assets, except for the deferred taxes, if any, until they were reduced to zero. Since January 1, 2009, the excess of the fair value of net assets acquired over the fair value of the consideration transferred plus the fair value of any noncontrolling interests is recognized as a gain in the consolidated statements of operations and comprehensive income (loss) on the acquisition date.

For investees accounted for under the equity method, the excess of cost to acquire a share in those companies over the Group s share of fair value of their net assets as of the acquisition date is treated as goodwill embedded in the investment account. Goodwill arising from equity method investments is not amortized, but tested for impairment on annual basis.

(e) Noncontrolling interest

Noncontrolling interests in the net assets and net results of consolidated subsidiaries are shown under the Noncontrolling interests and **Net income (loss) attributable to noncontrolling interests lines** in the accompanying consolidated balance sheets and statements of operations and comprehensive income (loss), respectively. Losses attributable to the Group and the noncontrolling interests in a subsidiary may exceed their interests in the subsidiary s equity. The excess, and any further losses attributable the Group and the noncontrolling interests, are to be attributed to those interests. That is, the noncontrolling interests continue to be attributed to its share of losses even if that attribution results in a deficit noncontrolling interest balance.

(f) Reporting and functional currencies

The Group has determined its reporting currency to be the U.S. dollar. The functional currencies for Russian, European, Romanian, Ukrainian, Kazakh, Bulgarian and Turkish subsidiaries of the Group are the Russian ruble, euro, the Romanian lei, the Ukrainian hryvnia, the Kazakh tenge, the Bulgarian lev and the Turkish lira, respectively. The U.S. dollar is the functional currency of the other international operations of the Group.

The translation adjustments resulting from the process of translating financial statements from the functional currency into the reporting currency are included in determining other comprehensive income. Mechel s Russian, European, Romanian, Ukrainian, Kazakh, Bulgarian and Turkish subsidiaries translate local currencies into U.S. dollars using the current rate method as prescribed by FASB ASC 830, Foreign Currency Matters (ASC 830), for all periods presented.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(g) Management estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(h) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depletion and depreciation. Property, plant and equipment acquired in business combinations are initially recorded at their respective fair values as determined by independent appraisers in accordance with the requirements of ASC 805. In the reporting periods ending before January 1, 2009, for the purpose of determining the carrying amounts of the property, plant and equipment pertaining to interests of noncontrolling shareholders in business combinations when less than a 100% interest is acquired, the Group used appraised fair values as of the acquisition dates in the absence of reliable and accurate historical cost bases for property, plant and equipment, which represented a departure from the U.S. GAAP effective before January 1, 2009. The portion of noncontrolling interest not related to property, plant and equipment was determined based on the historical cost of those assets and liabilities. As of December 31, 2013 and 2012, the depreciated appraised values of property, plant, and equipment pertaining to noncontrolling shareholders approximate their depreciated historical cost.

(i) Mining assets and processing plant and equipment

Mineral exploration costs incurred prior to establishing proven and probable reserves for a given property and costs of identifying and upgrading additional mineral resources to reserve status for mineral projects in the development and production stages are expensed as incurred. Proven and probable reserves are established based on independent feasibility studies and appraisals performed by mining engineers. Reserves are defined as that part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination. Proven reserves are defined as reserves, for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are defined as reserves, for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. Accordingly, the degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Costs of developing new underground mines are capitalized. Underground development costs, which are costs incurred to make the mineral physically accessible, include costs to prepare property for shafts, driving main entries for ventilation, haulage, personnel, construction of airshafts, roof protection and other facilities. Additionally, interest expense allocable to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Expenditures for improvements are capitalized, while costs related to maintenance (turnarounds) are expensed as incurred. In addition, cost incurred to maintain current production capacity at a mine and exploration expenditures are charged to expenses as incurred. Stripping costs incurred during the production phase of a mine are expensed as incurred.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Mining assets and processing plant and equipment are those assets, including construction in progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction after exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction. When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proven and probable mineral reserves that are expected to be mined during the license term for mining assets related to the mineral licenses acquired prior to August 22, 2004 (Note 2(k)), or the estimated lives of the mines for mining assets related to the mineral licenses acquired after that date. As fully described in Note 2(k), effective January 1, 2011, the Group changed its estimate of the useful lives of the mineral licenses acquired before August 22, 2004 to be based on proven and probable reserves of the mine. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

A decision to abandon, reduce or expand activity on a specific mine is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral licenses, and the likelihood that the Group will continue exploration on the mine. Based on the results at the conclusion of each phase of an exploration program, properties that are not economically feasible for production are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate. The ultimate recovery of these costs depends on the discovery and development of economic ore reserves or the sale of the companies owning such mineral rights.

(j) Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocable material and manufacturing overhead costs. Manufacturing overhead costs are capitalized only if and to the extent they can be reliably measured and directly allocated to definite object of construction-in-progress. These costs include the costs of electricity used to operate the equipment, depreciation on the equipment, costs of personnel (other than direct labour) and other. When construction activities are performed over an extended period, interest costs incurred during construction are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

The costs of planned major maintenance activities are recorded as the costs are actually incurred and are not accrued in advance of the planned maintenance. Costs for activities that lead to the prolongation of useful life or to expanded future use capabilities of an asset are capitalized. Maintenance and repair costs are expensed as incurred. We expensed $82,253, $98,122 and $104,557 of repair and maintenance costs during the period ended December 31, 2013, 2012

and 2011, respectively. These amounts represent the cost of third parties repair and maintenance services. Repair and maintenance costs carried out internally are accounted for as expense according to the nature of cost elements, including cost of labour and related social taxes, spare parts, auxiliary materials, energy and other expense.

Property, plant and equipment are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the consolidated statements of operations and comprehensive income (loss).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following useful lives are used as a basis for calculating depreciation:

Category of asset	Useful economic lives estimates, years
Buildings	20-45
Land improvements	20-50
Operating machinery and equipment, including transfer devices	7-30
Transportation equipment and vehicles	4-15
Tools, furniture, fixtures and other	4-8

(k) Mineral licenses

The mineral licenses are recorded at their fair values at the date of acquisition, based on the appraised fair value. Fair value of the mineral licenses acquired prior to August 22, 2004 (the date of change in the Russian Subsoil Law that makes license extensions through the end of the estimated proven and probable reserve period reasonably assured) is based on independent mining engineer appraisals for proven and probable reserves during the license term. Before 2011, such mineral licenses were amortized using the units-of-production method over the shorter of the license term or the estimated proven and probable reserve depletion period. Effective January 1, 2011, the Group changed its estimate of the useful lives of the mineral licenses acquired before August 22, 2004 to be based on proven and probable reserves of the mine. The change was applied prospectively and had no significant impact on the consolidated results of the Group s operations. The effect of this change in estimate was to reduce depletion expense for the year ended December 31, 2011 by $17,323 and increase income from continuing operations, net of taxes, by $13,858 or $0.00003 per common share.

Fair value of the mineral licenses acquired after August 22, 2004 is based on independent mining engineer appraisals of the estimated proven and probable reserve through the estimated end of the depletion period. Such mineral licenses are amortized using the units-of-production method through the end of the estimated proven and probable reserve depletion period.

In order to calculate proven and probable reserves, estimates and assumptions are used about a range of geological, technical and economic factors, including but not limited to quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. There are numerous uncertainties inherent in estimating proven and probable reserves, and assumptions that are valid at the time of

estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

The Group established a policy, according to which the Group would engage independent mining engineers to review its proven and probable reserves approximately every three years unless circumstances or additional factors warrant an additional analysis. This policy does not change the Group s approach to the measurement of proven and probable reserves as of their acquisition dates as part of business combinations that continue to involve independent mining engineers. The Group s proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(l) Intangible assets

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years. Indefinite-lived intangibles are evaluated annually for impairment or when indicators exist indicating such assets may be impaired, such evaluation assumes determination of fair value of intangible assets based on a valuation model that incorporates expected future cash flows and profitability projections.

(m) Asset retirement obligations

The Group has numerous asset retirement obligations associated with its core business activities. The Group is required to perform these obligations under law or contract once an asset is permanently taken out of service. Most of these obligations are not expected to be paid until many years into the future and will be funded from general resources at the time of removal. The Group s asset retirement obligations primarily relate to mining and steel production facilities with related landfills, dump areas and mines. The Group s estimates of these obligations are based on current regulatory or license requirements, as well as forecasted dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of FASB ASC 410, Asset Retirement and Environmental Obligations (ASC 410).

In order to calculate the amount of asset retirement obligations, the expected cash flows are discounted using the estimate of credit-adjusted risk-free rate as required by ASC 410. The credit-adjusted risk-free rate is calculated as a weighted average of risk-free interest rates for Russian Federation bonds or the U.S. treasury bonds depending on the location of the assets with maturity dates that are similar with the expected timing of when the asset retirement activities will be performed, adjusted for the effect of the Group s credit standing.

(n) Long-lived assets impairment, including definite-lived intangibles and goodwill

The Group follows the requirements of FASB ASC 360, Property, Plant and Equipment (ASC 360), which addresses financial accounting and reporting for the impairment and disposal of long-lived assets, and FASB ASC 350, Intangibles Goodwill and Other (ASC 350), with respect to impairment of goodwill and intangibles. The Group reviews the carrying value of its long-lived assets, including property, plant and equipment, investments, goodwill, licenses to use mineral reserves (inclusive of capitalized costs related to asset retirement obligations and value beyond proven and probable reserves), and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable as prescribed by ASC 350 and ASC 360. Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the

asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group of assets.

In performing the impairment analysis, the Group considers whether the results and cash flows of an asset or asset group can be clearly distinguished from results and cash flows of other assets of the Group. Generally long-lived assets are grouped by reporting units with discrete financial information regularly reviewed by operating management (i.e. the lowest level of identifiable cash flows that are independent of the cash flows of other assets is at a single entity level). At SKCC, a group of assets is determined by the aggregated mines owned and operated by SKCC, because they are dependent on operations of each other and represent the single production process.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired and impairment charge is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to their fair value.

Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. For assets and groups of assets relating to and including the licenses to use mineral reserves, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves and estimated value beyond proven and probable mineral reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by the Group s engineers. The Group s reporting units with goodwill allocated for the testing purposes represent single entities with one component of business in each case. As of December 31, 2013, the Group had the following number of reporting units by segments with goodwill allocated for testing purposes: Steel 3, Mining 5, Power 2 and Ferroalloy 1. Estimated future cash flows are based on the Group s assumptions and are subject to risk and uncertainty that are considered in the discount rate applied in the goodwill impairment testing.

ASC 350 prohibits the amortization of goodwill. Instead, goodwill is tested for impairment at least annually and on an interim basis when an event occurs that could potentially lead to the impairment, i.e. significant decline in selling prices, production volumes or operating margins. Under ASC 350, goodwill is assessed for impairment by using the fair value based method. The Group determines fair value by utilizing discounted cash flows. The impairment test required by ASC 350 for goodwill includes a two-step approach. Under the first step, companies must compare the fair value of a reporting unit to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired.

Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit s goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit s assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

When performing impairment tests, the Group uses assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs as well as capital expenditures

and working capital requirements during the forecasted period. The Group estimates discount rates using after-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on the Group s growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. While impairment of long-lived assets does not affect reported cash flows, it does result in a non-cash charge in the consolidated statements of operations and comprehensive income (loss), which could have a material adverse effect on the Group s results of operations or financial position.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(o) Finance leases

The cost of equipment acquired under capital (finance) lease contracts is measured at the lower of its fair value or the present value of the minimum lease payments, and reflected in the balance sheet at the measured amount less accumulated depreciation. The cost of the equipment is subject to an annual impairment review as described in Note 2(n). Capital lease liabilities are divided into long-term and current portions based on the agreed payment schedule and discounted using the lessor s implicit interest rate. Depreciation of assets acquired under the capital (finance) lease is included in the depreciation charge for the period.

(p) Inventories

Inventories are stated at the lower of acquisition/manufacturing cost or market value. Cost is determined on a weighted average basis and includes all costs in bringing the inventory to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labor and allocation of fixed and variable production overheads. Raw materials are valued at a purchase cost inclusive of freight and other shipping costs.

Coal, nickel and iron ore inventory costs include direct labor, supplies, depreciation of equipment, depletion of mining assets and amortization of licenses to use mineral reserves, mine operating overheads and other related costs. Operating overheads are charged to expenses in the periods when the production is temporarily paused or abnormally low.

Market value is the estimated price, at which inventories can be sold in the normal course of business after allowing for the cost of completion and sale. The Group determines market value of inventories for a group of items of inventories with similar characteristics. The term market means current replacement cost not to exceed net realizable value (selling price less reasonable estimable costs of completion and disposal) or be less than net realizable value adjusted for a normal profit margin. Market value for each group is compared with an acquisition/manufacturing cost, and the lower of these values is used to determining the amount of the write-down of inventories, which is recorded within the cost of sales in the consolidated statements of operations and comprehensive income (loss). When inventories are written down below cost at the close of a fiscal year, such reduced amount is considered as the cost basis for subsequent accounting purposes.

(q) Accounts receivable

Accounts receivable are stated at net realizable value. If receivables are deemed doubtful, bad debt expense and a corresponding allowance for doubtful accounts is recorded. If receivables are deemed uncollectible, the related receivable balance is charged off. Recoveries of receivables previously charged off are recorded when cash received. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortized to interest income over the term of the receivable. The Group reviews the valuation of accounts receivable on a regular basis. The amount of allowance for doubtful accounts is calculated based on the ageing of balances in accordance with contract terms. In addition to the allowance for specific doubtful accounts, the Group applies specific rates to overdue balances of its subsidiaries depending on the history of cash collections and future expectations of conditions that might

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

impact the collectibility of accounts of each individual subsidiary. Accounts receivable, which are considered non-recoverable (those aged over three years or due from bankrupt entities) are written-off against allowance or charged off to operating expenses (if no allowance was created in previous periods).

The Group s standard credit terms vary from 30 to 60 days. The Group also extends the credit terms to its related party customers from 2 up to 365 days. The Group monitors collectibility of accounts receivable, including those from its related parties, on an ongoing basis primarily through review of the accounts receivable aging to determine whether accounts receivable are a concern.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in transit, checks and deposits with banks, as well as other bank deposits with an original maturity of three months or less.

(s) Retirement benefit obligations

The Group s Russian subsidiaries are legally obligated to make defined contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Group s contributions to the Russian Pension Fund relating to defined contribution plans are charged to income in the year, to which they relate.

In 2011, the total rate of social contributions was 34%: contributions to the Russian Pension Fund in the amount of 26% of the annual gross salary of each employee, contributions to the Fund of Obligatory Medical Insurance in the amount of 5.1%, and contributions to the Social Insurance Fund in the amount of 2.9%. These rates were applied to the part of the annual gross salary below 463 thousand Russian rubles (approximately $15.8) for each employee and 0% thereafter. Annual gross salaries exceeding that amount were non-taxable.

In 2012, the contributions to the Russian Pension Fund were reduced to 22%, while rates for the Fund of Obligatory Medical Insurance and the Social Insurance Fund remained the same. These tariffs were applied to the part of annual gross salary below 512 thousand Russian rubles (approximately $16.9), and 10% are additionally charged to the Pension Fund on the exceeding amount thereafter.

In 2013, the rates of social contributions remained at the same level as in 2012. These rates were applied to the portion of annual gross salary below 568 thousand Russian rubles (approximately $17.8), and 10% are additionally charged to

the Pension Fund on the exceeding amount thereafter.

Contributions to the Russian pension fund for the years ended December 31, 2013, 2012 and 2011 were $192,820, $176,912 and $210,004, respectively.

The BCG Companies contribute to multiemployer defined benefit pension plans sponsored by the United Mine Workers of America (UMWA) labor union. The amount of contributions to the UMWA, which is based on the number of employees, a specified rate and the total number of employee hours worked for the years ended December 31, 2013, 2012 and 2011 was $1,967, $2,709 and $3,900, respectively.

In addition, the Group has a number of defined benefit pension plans that cover the majority of production employees. Benefits under these plans are primarily based upon years of service and average earnings. The

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of operations, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan.

The Group s obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield at the year end on highly rated long-term bonds.

For unfunded plans, the Group recognizes a pension liability, which is equal to the projected benefit obligation. For funded plans, the Group offsets the fair value of the plan assets with the projected benefit obligations and recognizes the net amount of pension liability. The market value of plan assets is measured at each reporting date.

The Group s U.S. subsidiaries adopted FASB ASC 715, Compensation Retirement Benefits (ASC 715), and use the Projected Unit Credit method of accounting for post-retirement health care benefits, which is intended to match revenues with expenses and attributes an equal amount of an employee s projected benefit to each year from date of plan entry to the date that the employee is first eligible to retire with full benefits. The actuarially estimated accumulated postretirement benefit obligation (APBO) represents the present value of the estimated future benefits payable to current retirees and a pro rata portion of estimated benefits payable to active employees upon retirement (Note 16).

(t) Revenue recognition

Revenue is recognized on an accrual basis when earned and realizable, which generally occurs when products are delivered to customers. In certain foreign jurisdictions (e.g. Switzerland), the Group generally retains title to goods sold to end-customers solely to ensure the collectibility of its accounts receivable. In such instances, all other sales recognition criteria are met, which allows the Group to recognize sales revenue in conformity with underlying sales contracts.

Revenue is recognized net of applicable provisions for discounts and allowances and associated sales taxes (VAT) and export duties.

Revenues are inflows from sales of goods that constitute ongoing major operations of the Group and are reported as such in the consolidated statement of operations and comprehensive income (loss). Inflows from incidental and peripheral operations are considered gains and are included, net of related costs, in other income in the consolidated

statement of operations and comprehensive income (loss).

The Group is involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when the Group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when the Group has earned a commission or fee as an agent. The Group evaluates the relevant facts and circumstances and takes into consideration the following factors in determining whether to recognizes revenue on a gross basis: (1) the Group is the primary obligor in the arrangement; (2) the Group has general inventory risk including customer returns; (3) the Group has latitude in establishing price; (4) the Group changes the product or performs part of the service; (5) the Group has discretion in supplier selection; (6) the Group is involved in the determination of product or service specifications; (7) the Group has physical loss

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

inventory risk; and (8) the Group has credit risk. Otherwise, revenues are reported net when the Group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity.

This accounting policy of reporting revenue gross as a principal versus net as an agent has no effect on gross profit, income from continuing operations before taxes, or net income.

In the situation when the Group acts as a supplier and as a buyer with the same counterparty, the Group analyzes the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

In the Power segment (Note 24), revenue is recognized based on unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

(u) Advertising costs

Advertising costs are expensed as incurred. During the years ended December 31, 2013, 2012 and 2011, the amounts of advertising costs were insignificant.

(v) Shipping and handling costs

The Group classifies all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses. These costs totaled $1,123,574 $1,153,471 and $1,120,581 for the years ended December 31, 2013, 2012 and 2011, respectively.

(w) Income taxes

Provision is made in the financial statements for taxation of profits in accordance with applicable legislation currently in force in individual jurisdictions. The Group accounts for income taxes under the liability method in accordance with FASB ASC 740, Income Taxes (ASC 740). Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities and

are measured using enacted tax rates to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income or expense in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on the expectations of future taxable income and reversals of the various taxable temporary differences.

ASC 740 prescribes the minimum recognition threshold a tax position must meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2013 and 2012, the Group included accruals for unrecognized income tax benefits totaling $78,332 and $20,202, including interest and penalties of $13,789 and $3,499, as a component of accrued liabilities, respectively. Interest and penalties recognized in accordance with ASC 740 are classified in the financial statements as income taxes.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(x) Comprehensive income

FASB ASC 220, Comprehensive Income (ASC 220), requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments, unrealized holding gains and losses on available-for-sale securities and on derivative financial instruments, as well as pension liabilities not recognized as net periodic pension cost. For the years ended December 31, 2013, 2012 and 2011, in addition to net income, total comprehensive income included the effect of translation of the financial statements denominated in currencies other than the reporting currency (in accordance with ASC 830), changes in the carrying values of available-for-sale securities, and change in pension benefit obligation subsequent to the adoption of the ASC 715. In accordance with ASC 715, the Group recognizes actuarial gains and losses, prior service costs and credits and transition assets or obligations (the full surplus or deficit in their plans) in the balance sheet. As of December 31, 2013 and 2012, the amount of comprehensive income included the effect of curtailment and actuarial gains and losses.

Accumulated other comprehensive loss is comprised of the following components:

	December 31, 2013	December 31, 2012	December 31, 2011
Cumulative currency translation adjustment	(68,784)	(337,701)	(385,426)
Unrealized losses on available-for-sale securities	(1,309)	(3,480)	(3,180)
Pension adjustments, net of related income taxes of $6,718 in 2013, $7,918 in 2012 and $7,276 in 2011	22,492	14,248	32,026
Total accumulated other comprehensive loss	**(47,601)**	**(326,933)**	**(356,580)**

(y) Stock-based compensation

The Group applies the fair-value method of accounting for employee stock-compensation costs as outlined in FASB ASC 718, Compensation Stock Compensation (ASC 718). During the years ended December 31, 2013, 2012 and 2011, the Group did not enter in any employee stock-compensation arrangements.

(z) Segment reporting

According to FASB ASC 280, Segment Reporting (ASC 280), segment reporting follows the internal organizational and reporting structure of the Group. The Group s operations are presented in four business segments as follows:

Steel segment, comprising production and sales of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, value-added downstream metal products, including forgings, stampings, and hardware;

Mining segment, comprising production and sales of coal (coking and steam) and middlings, coke and chemical products, and iron ore, which supplies raw materials to the Steel, Ferroalloy and Power segments and also sells substantial amounts of raw materials to third parties;

Power segment, comprising generation and sales of electricity and heat power, which supplies electricity and heat power to the Steel, Ferroalloy and Mining segments and also sells a portion of electricity and heat power to third parties;

Ferroalloy segment, comprising production and sales of ferrosilicon, which supplies raw materials to the Steel segment and also sells substantial amounts of raw materials to third parties.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(aa) Financial instruments

The carrying amount of the Group s financial instruments, which include cash equivalents, marketable securities, non-marketable debt securities, cost method investments, accounts receivable and accounts payable, and short-term borrowings approximates their fair value as of December 31, 2013 and 2012. For long-term borrowings, the difference between fair value and carrying value is shown in Note 14. The Group, using available market information and appropriate valuation methodologies, such as discounted cash flows, has determined the estimated fair values of financial instruments. Since different entities are located and operate in different regions of Russia and elsewhere with different business and financial market characteristics, there are generally very limited or no comparable market values available to assess the fair value of the Group s debt and other financial instruments. The cost method investments are shares of Russian companies that are not publicly traded and their market value is not available. It is not practicable for the Group to estimate the fair value of these investments, for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to make the estimate, and the cost of obtaining an independent valuation would be excessive considering the materiality of the instruments to the Group. Therefore, such investments are recorded at cost (Note 8).

(bb) Guarantees

In accordance with FASB ASC 460, Guarantees (ASC 460), the fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense or re-measurement adjustments are included in the related line items of the consolidated statements of operations and comprehensive (loss) income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

(cc) Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements, which may further result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group s management makes an assessment of such contingent liabilities, which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group s consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(dd) Derivative instruments and hedging activities

The Group recognizes its derivative instruments as either assets or liabilities at fair value in accordance with FASB ASC 815, Derivatives and Hedging (ASC 815). The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. For the years ended December 31, 2013, 2012 and 2011, the Group did not have any derivatives designated as hedging instruments. Therefore, any gain or loss on a derivative instrument held by the Group is recognized currently in income.

The cross currency swap agreement involves the exchange of two principal amounts in two different currencies at the prevailing currency rate at contract inception. During the life of the swap, the counterparties exchange fixed rate interest payments in the swapped currencies. At maturity, the principal amounts are again swapped at a pre-determined rate of exchange. For the years ended December 31, 2013, 2012 and 2011, a gain of $1,791, a gain of $6,527 and loss of $20,784, respectively, related to the change in the fair value of the cross currency swap was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). There were no foreign currency forward and options contracts outstanding as of December 31, 2013, 2012 and 2011.

The cross currency option creates an embedded derivative, which should be measured at fair value, bifurcated at inception from the host agreement and recorded as a liability. When the underlying achieves the barrier value, the liability under the host contract converts into cross-currency at a pre-determined strike exchange rate and a modified interest rate. The fair value of the option is estimated using modified Black-Scholes model for barrier options. The liability under the host contract is recorded at amortized value, and the interest is accrued using effective interest rate. For the years ended December 31, 2013 and 2012, a gain of $20,682 and $20,276, related to the change in the fair value of the option was included in the net foreign exchange gain (loss) in the accompanying consolidated statements of operations and comprehensive income (loss). There were no such gains or losses related to the change in the fair value of derivative instruments during the year ended December 31, 2011.

(ee) Investments

The Group recognizes all its debt and equity investments in accordance with FASB ASC 320, Investments Debt and Equity Securities (ASC 320). At acquisition, the Group classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale or trading. At each reporting date the Group reassesses the appropriateness of the classification.

Held-to-maturity securities

Investments in debt securities that the Group has both the ability and the intent to hold to maturity are classified as held-to-maturity and measured at amortized cost in the consolidated financial statements.

Trading securities

Investments (debt or equity), which the Group intends to sell in the near term, and which are usually acquired as part of the Group s established strategy to buy and sell, generating profits based on short-term price movements, are classified by the Group as trading securities. Changes in fair value of trading securities are recognized in earnings.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Available-for-sale securities

Investments (debt or equity), which are not classified as held-to-maturity or trading are classified as available-for-sale. Change in their fair value is reflected in other comprehensive income (loss).

Recoverability of equity method and other investments

Management periodically assesses the recoverability of the Group s equity method and other investments. For investments in publicly traded entities, readily available quoted market prices are an indication of the fair value of the investments. For investments in non-publicly traded entities, if an identified event or change in circumstances requires an evaluation, management assesses their fair value based on valuation techniques including discounted cash flow estimates or sales proceeds, external appraisals and market prices of similar investments as appropriate.

Management considers the assumptions that a hypothetical market place participant would use in his analysis of discounted cash flows models and estimates of sales proceeds. If an investment is considered to be impaired and the decline in value is other than temporary, the Group records an impairment loss.

(ff) Concentration of credit and other risks

Financial instruments, which potentially expose the Group to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term and long-term investments, trade accounts receivable and other receivables. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments.

The following table presents the exchange rates for the functional and operating currencies at various subsidiaries, other than the reporting currency:

		Year end rates* at December 31,			Average exchange rates* for the years ended December 31,		
Currency	**At May 15, 2014**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Russian ruble	34.71	32.73	30.37	32.20	31.85	31.09	29.39
Euro	0.73	0.73	0.76	0.77	0.75	0.78	0.72
Romanian lei	3.25	3.26	3.36	3.34	3.33	3.47	3.05

Kazakh tenge	182.05	153.61	150.74	148.40	152.14	149.11	146.62
Bulgarian lev	1.43	1.42	1.48	1.51	1.47	1.52	1.41
Turkish lira	2.07	2.14	1.79	1.91	1.90	1.80	1.67
Ukrainian hryvnia	11.76	7.99	7.99	7.99	7.99	7.99	7.97

(*) Exchange rates shown in local currency units for one U.S. dollar

The majority of the balances and operations not already denominated in the reporting currency were denominated in the Russian ruble, euro and Romanian lei.

The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of Russia (CBR) and are generally considered to be a reasonable approximation of market rates.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(gg) Discontinued operations

FASB ASC 205 Discontinued operations (ASC 205) sets forth the financial accounting and reporting requirements for discontinued operations of a component of an entity. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable or an operating segment, a reporting unit, a subsidiary, or an asset group.

ASC 205 uses a single accounting model to account for all long-lived assets to be disposed of (by sale, abandonment, or distribution to owners). This includes asset disposal groups meeting the criteria for presentation as a discontinued operation, as specified in ASC 205. A long-lived asset group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. Additionally, in accordance with ASC 360, a loss is recognized for any write-down to fair value less cost to sell. A gain is recognized for any subsequent recovery of cost. Lastly, a gain or loss not previously recognized resulting from the sale of the asset disposal group is recognized at the date of sale.

In accordance with ASC 205, a subsidiary is reported as discontinued operation when both of the following conditions are met:

- The operations and cash flow of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.

- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

In a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statement for current and prior periods reports the results of operations of the component, including any gain or loss recognized from the sale or write-down, in discontinued operations. The results of operations of a component classified as held for sale are reported in discontinued operations in the periods in which they occur. The results of discontinued operations, less applicable income taxes (benefit), are reported as a separate component of income before extraordinary items (if applicable).

(hh) Recently issued accounting pronouncements

Liquidation Basis of Accounting

In April 2013, the FASB issued Accounting Standards Update (ASU) ASU 2013-07, Liquidation Basis of Accounting (ASU 2013-07), which provides entities with the guidance when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. If a plan for liquidation was specified in the entity s governing documents from the entity s inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity s inception.

The amendments require to present relevant information about an entity s expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities (for example, trademarks).

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

An entity should recognize and measure its liabilities in accordance with U.S. GAAP that otherwise applies to those liabilities. The entity should not anticipate that it will be legally released from being the primary obligor under those liabilities, either judicially or by creditor(s). The entity also is required to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities.

Additionally, the amendments require disclosures about an entity s plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process.

ASU 2013-07 is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The adoption of ASU 2013-07 is not expected to have a material impact on the Group s consolidated financial statements.

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

In July 2013, the FASB issued ASU 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2013-10), which permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to the interest rates on direct Treasury obligations of the US government (UST) and the London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges.

ASU 2013-10 is effective for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 is not expected to have a material impact on the Group s consolidated financial statements.

Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, FASB issued ASU 2013-11, Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), an amendment to ASC 740. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is

disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on the Group s consolidated financial statements.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Presentation of Financial Statements and Property, Plant, and Equipment

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment (ASU 2014-08), which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations in accordance with ASC 205 and ASC 360. Under the guidance in ASU 2014-08, only disposals representing a strategic shift in operations that is, a major effect on the entity s operations and financial results should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment.

Additionally, the amendments in ASU 2014-08 require expanded disclosures, for each comparative period, about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations.

The provisions in ASU 2014-08 also require an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting.

ASU 2014-08 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. An entity should not apply the amendments to a component of an entity, or a business, that is classified as held for sale before the effective date even if the component of an entity, or business, is disposed of after the effective date. The adoption of ASU 2014-08 is not expected to have a material impact on the Group s consolidated financial statements. There were various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the financial position, results of operations or cash flows of the Group.

(ii) Reclassifications

Certain reclassifications have been made to the prior periods consolidated financial statements to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated balance sheet and the consolidated statement of operations and comprehensive income (loss), and have no impact on net income or equity.

3. ACQUISITIONS, INVESTMENTS AND DISPOSALS

As disclosed in the preceding note, the Group experienced significant growth through acquisitions. The following describes business combinations between January 1, 2011 and December 31, 2013.

(a) Cognor Stahlhandel GmbH

On September 25, 2012, the Group acquired a 100% interest in Cognor Stahlhandel GmbH (Cognor), a metallurgical trader located in Austria, for $29,056 paid in cash. Before the acquisition, the 100% of the shares of Cognor were pledged to secure the Group s loan issued to the related metallurgical plants (Note 9(a)). The acquisition is consistent with the Group s strategy to expand its sales network and enlarge its client base. Cognor is included in the Steel segment.

F-29

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

This acquisition was accounted for using the purchase method of accounting. The results of operations of Cognor are included in the consolidated financial statements from the date of acquisition of control, September 25, 2012. The following table summarizes the historical values of net assets acquired at the date of acquisition of control:

	September 25, 2012
Cash and cash equivalents	4,884
Other current assets	107,839
Property, plant and equipment	49,097
Other non-current assets	3,384
Current liabilities	(184,027)
Non-current liabilities	(11,443)
Deferred income tax liabilities	(2,573)
Fair value of net assets (liabilities) acquired	(32,839)
Fair value of noncontrolling interest	(54)
Goodwill	61,949
Total investment	**29,056**

Goodwill of $61,949 arising from the Group s acquisition of Cognor represented expected benefits from the synergies related to the expansion of the trading activities and strengthening the position in the European market. As a result of the impairment analysis, an impairment loss of $62,118 for the year ended December 31, 2012 was recognized (Note 23).

(b) Lomprom Rostov

On November 22, 2012, the Group acquired 100% of the shares of Lomprom Rostov, a factory performing collection and storage of scrap metal located in Shakhty, Russia, for a consideration of $100 paid in cash. Before the acquisition, the 100% of the shares of Lomprom Rostov were pledged to secure the Group s loan issued to the related metallurgical plants (Note 9(a)). The acquisition is consistent with the Group s program to decrease the cost of steel products production, in particular, the cost of production based on smelt-furnace. Lomprom Rostov, subsequently renamed into Mechel Vtormet Rostov, is included in the Steel segment.

This acquisition was accounted for using the purchase method of accounting. The results of operations of Lomprom Rostov are included in the consolidated financial statements from the date of acquisition of control, November 22, 2012.

In the consolidated financial statements for the year ended December 31, 2012, the purchase price allocation was preliminary, pending the receipt of the final property, plant and equipment and other identifiable asset appraisal. During the first half of 2013, the Group completed the valuation of assets and finalized the purchase price allocation for Lomprom Rostov.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following table summarizes the provisional values and adjustments to them to arrive to the final fair values of assets acquired and liabilities assumed at the date of acquisition of control:

	Provisional basis	Adjustments	Final basis
Cash and cash equivalents	76		76
Other current assets	4,758		4,758
Property, plant and equipment	23,371	(401)	22,970
Other non-current assets	2		2
Current liabilities	(18,404)		(18,404)
Non-current liabilities	(22,416)		(22,416)
Deferred income taxes	(117)	80	(37)
Fair value of net assets acquired	(12,730)	(321)	(13,051)
Goodwill	12,830	321	13,151
Total investment	**100**		**100**

Goodwill of $13,151 arising from the Group s acquisition of Lomprom Rostov represents expected benefits from the synergies related to the reduction in production costs from using scrap in the Group s subsidiaries melting operations. The results of Lomprom Rostov as discontinued operations are included in the Steel segment.

(c) Discontinued operations
Toplofikatsia Rousse

On December 13, 2012, the Group entered into an agreement with a third party to sell 100% of the shares of TPP Rousse for a consideration of $37,757. The transfer of shares was completed on July 5, 2013. The disposal of TPP Rousse is aligned with the revised strategy aimed at restructuring the Group`s assets and development of its core businesses.

The receivables under the sale and purchase agreement and intercompany receivables for the coal supply that existed as of the date of disposal are secured in favor of the Group by the pledge of TPP Rousse shares and receivables of TPP Rousse for electricity sold. As of December 31, 2013 and 2012, accounts receivable due to the Group amounted to

$16,920 and $18,388, respectively. The intragroup sales to TPP Rousse included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $9,449, $35,248 and $33,851 during the years ended December 31, 2013, 2012 and 2011, respectively.

In the previous periods, the Group s transactions with TPP Rousse were mainly represented by the coal supply to TPP Rousse, which are likely to be ceased after the disposal of this entity. The Group will not have any significant continuing involvement in the operations of TPP Rousse after the disposal transaction.

As at December 31, 2012, the Group classified TPP Rousse as held for sale (assets and liabilities of discontinued operations) and excluded the result of TPP Rousse from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

Following the classification of TPP Rousse as held for sale, the fair value of net assets was determined. The impairment loss of goodwill and long-lived assets of $82,742 and $13,031, respectively, for the year ended

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

December 31, 2012 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. No additional impairment was recognized during 2013. The impairment loss was recognized in consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax line.

The results of TPP Rousse presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for the years ended December 31, 2013, 2012 and 2011:

	2013	**2012**	**2011**
Revenue, net	18,595	37,010	38,991
Loss from discontinued operations before income taxes	(262)	(110,668)	(9,240)
Income tax benefit	209	2,239	870
Loss from discontinued operations, net of income tax	**(53)**	**(108,429)**	**(8,370)**

The carrying amounts of the major classes of assets and liabilities of TPP Rousse presented as discontinued operations in consolidated balance sheets were as follows as of date of disposal and December 31, 2012:

	July 5, 2013	**December 31, 2012**
Condensed balance sheet selected data		
Cash and cash equivalents	3,572	3,035
Accounts receivable, net of allowance for doubtful accounts	9,589	5,681
Inventories	3,244	5,854
Prepayments and other current assets	489	533
Property, plant and equipment and other non-current assets, net	41,146	44,120
Total current assets of discontinued operations	**58,040**	**59,223**
Accounts payable and accrued expenses	21,721	3,800
Short-term borrowings and current portion of long-term debt		12,234
Other current liabilities	1,536	1,767

Total current liabilities of discontinued operations	**23,257**	**17,801**

The result of TPP Rousse as discontinued operations was included in the Power segment. The result of TPP Rousse for the year ended December 31, 2013 includes gain on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 5, 2013
Consideration received	37,757
Net assets disposed of	(34,783)
Accumulated currency translation adjustment attributable to disposal of TPP Rousse transferred to the current period income (loss)	2,633
Gain on disposal of TPP Rousse	**5,607**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

DEMP

On December 7, 2013, the Group received a binding offer from a third party to acquire 100% of the shares of Donetsk Electrometallurgical Plant (DEMP) for the consideration of $80,000. The amount of $20,000 should be paid as of the date of disposal. The remaining balance of $60,000 should be paid within two years after the disposal date under the interest-free loan agreement. The last payment should be made not later than December 31, 2014. The buyer reimburses the seller expenses for financing operating activity since January 1, 2014. The transfer of shares requires obtaining a regulatory approval and is expected to be completed before July 31, 2014. The disposal of DEMP is aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

As of December 31, 2013, the outstanding balance of loans issued by the Group to DEMP amounted to $81,082. Other intercompany transactions are not significant and are likely to be ceased after the disposal of this entity. The Group will not have significant continuing involvement in the operations of DEMP after the disposal transaction.

As of December 31, 2013 and 2012, the Group classified DEMP as held for sale (assets and liabilities of discontinued operations) and excluded the result of DEMP from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

Following the classification of DEMP as held for sale, the fair value of net assets of this entity was determined. The impairment of long-lived assets of $151,068 for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax line.

The results of DEMP presented as discontinued operations in consolidated statements of operations and comprehensive income (loss) were as follows for the year ended December 31, 2013 and 2012:

	2013	Years ended December 31, 2012	December 31 2011
Revenue, net	**100,320**	**362,707**	**19,006**
Loss from discontinued operations before income taxes	(206,704)	(256,980)	(4,797)
Income tax benefit	28,944	4,920	174

Loss from discontinued operations, net of income tax	**(177,760)**	**(252,060)**	**(4,623)**

Based on the result of impairment analysis of goodwill performed by the Group during the year ended December 31, 2012, an impairment loss of $205,522 was recognized. The result of impairment loss is included in the result from discontinued operations of the Group for the year ended December 31, 2012.

The Group started transactions with DEMP in 2010. These transactions were carried to expand the Group s operations and products range on the steel market and allowing DEMP access to the Group s sales network. The Group was mostly involved in reselling the goods produced by DEMP on the domestic and the export markets.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

During the year ended December 31, 2011, before the acquisition in December 22, 2011, the Group had the following transactions with DEMP that are included in continuing operations of the Group

	2011
Revenues	
Steel segment products sales	372,871
Costs and expenses	
Cost of goods for resale	(346,568)
Net income	**26,303**

The carrying amounts of the major classes of assets and liabilities of DEMP presented as assets and liabilities of discontinued operations in the consolidated balance sheets were as follows as of December 31, 2013 and 2012:

	December 31, 2013	**December 31, 2012**
Condensed balance sheet selected data		
Cash and cash equivalents	6,014	125
Accounts receivable, net of allowance for doubtful accounts	2,831	9,916
Inventories	36,289	35,649
Prepayments and other current assets	64,225	64,829
Property, plant and equipment, net	38,162	
Total current assets of discontinued operations	**147,521**	**110,519**
Property, plant and equipment, net		227,706
Total non-current assets of discontinued operations		**227,706**
Accounts payable and accrued expenses	23,542	48,497
Pension obligations	10,225	888

Deferred income taxes		
Other current liabilities	52,796	
Total current liabilities of discontinued operations	**86,563**	**49,385**
Pension obligations		10,387
Deferred income taxes		28,944
Other non-current liabilities		8,156
Total non-current liabilities of discontinued operations		**47,487**

The results of DEMP as discontinued operations are included in the Steel segment.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Invicta

On July 18, 2013, the Group entered into an agreement with a third party to sell 100% of the shares of Invicta Merchant Bar Limited (Invicta) for the total consideration of $1,668. The transfer of shares was completed on the same date. The disposal of Invicta was aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

In the previous periods, the Group s transactions with Invicta mainly consisted of the steel products resale, which are likely to be ceased after the disposal of this entity. The Group will not have significant continuing involvement in the operations of Invicta after the disposal transaction. Intercompany purchases of Invicta s tolling services amounted to $18 and $4,551 during the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Group classified Invicta as held for sale (assets and liabilities of discontinued operations) and excluded the result of Invicta from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

Following the classification of Invicta as held for sale, the fair value of net assets of this entity was determined. The impairment of goodwill and long-lived assets of $2,768 and $4,198, respectively, for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax line.

The results of Invicta presented as discontinued operations in consolidated statements of operations and comprehensive income (loss) were as follows for the year ended December 31, 2013, 2012 and 2011:

	Years ended		
	December 31, 2013	**December 31, 2012**	**December 31, 2011**
Revenue, net	9,761	12,642	7,080
Loss from discontinued operations before income taxes	(13,303)	(3,588)	(2,723)
Income tax benefit			
	(13,303)	**(3,588)**	**(2,723)**

Loss from discontinued operations, net of income tax

The Group started transactions with Invicta Merchant Bar in 2010. These transactions were carried to expand the Group s operations and products range on the steel market and allowing Invicta access to the Group s sales network. The Group was mostly involved in reselling the goods produced by Invicta on the domestic and the export markets.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

During the year ended December 31, 2011, before the acquisition in August 2011, the Group had the following transactions with Invicta that are included in continuing operations of the Group:

	2011
Revenues	
Steel segment products sales	28,576
Costs and expenses	
Cost of goods for resale	(28,916)
Total expenses	**(340)**

The carrying amounts of the major classes of assets and liabilities of Invicta presented as assets and liabilities of discontinued operations in the consolidated balance sheets were as follows as of July 18, 2013 and December 31, 2012:

	July 18, 2013	**December 31, 2012**
Condensed balance sheet selected data		
Cash and cash equivalents	44	163
Accounts receivable, net of allowance for doubtful accounts	8	183
Inventories	543	579
Prepayments and other current assets	191	947
Property, plant and equipment, net	2,864	8,019
Goodwill		2,980
Total current assets of discontinued operations	**3,650**	**12,871**
Accounts payable and accrued expenses	1,855	1,052
Other current liabilities	127	79
	1,982	**1,131**

Total current liabilities of discontinued operations

The result of Invicta as discontinued operations was included in the Steel segment. The result of Invicta for the year ended December 31, 2013 includes loss on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 18, 2013
Consideration received	1,668
Net assets disposed of	(1,668)
Accumulated currency translation adjustment attributable to disposal of Invicta transferred to the current period income (loss)	229
Gain on disposal of Invicta	**229**

Mechel Vtormet Rostov (former Lomprom Rostov)

On July 17, 2013, the Group entered into an agreement with a third party to sell 100% of the shares of Lomprom Rostov for the total consideration of $517. The transfer of shares was completed on the same date. The disposal of Lomprom Rostov was aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

F-36

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Loan issued by the Group to Lomprom Rostov in the amount of $6,121 and $4,720 (including interest payables) as of December 31, 2013 and 2012, respectively is expected to be fully repaid till August 2015. Other intercompany transactions are not significant and likely to be ceased after the disposal of this entity. The Group will not have any significant continuing involvement in the operations of Lomprom Rostov after the disposal transaction.

As of December 31, 2013 and 2012, the Group classified Lomprom Rostov as held for sale (assets and liabilities of discontinued operations) and excluded the result of Lomprom Rostov from continuing operations and reported as discontinued operations for the twelve months ended December 31, 2013 and prior periods.

Following the classification of Lomprom Rostov as held for sale, the fair value of net assets of this entity was determined. The impairment loss of goodwill of $2,597 for the twelve months ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax .

The intragroup sales to the discontinued component included in revenue from continuing operations in the consolidated financial statement of operations and comprehensive income (loss) amounted to $19,977 during the year ended December 31, 2012.

The results of Lomprom Rostov presented as discontinued operations in consolidated statements of operations and comprehensive income (loss) were as follows for:

	Years ended	
	July 17, 2013	**December 31, 2012**
Revenue, net	**151,307**	**25,765**
Gain (loss) from discontinued operations before income taxes	4,479	(455)
Income tax benefit	1,585	280
Gain (loss) from discontinued operations, net of income taxes	**6,064**	**(175)**

F-37

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The carrying amounts of major classes of assets and liabilities of disposed companies were as follows as of:

	July 17, 2013	December 31, 2012
Cash and cash equivalents	2,166	111
Accounts receivable, net of allowance for doubtful accounts	18,687	20,374
Inventories	829	14,236
Prepayments and other current assets	4,428	2,743
Property, plant and equipment, net	21,164	24,122
Goodwill	9,862	12,830
Total current assets of discontinued operations	**57,136**	**74,416**
Accounts payable and accrued expenses	25,504	27,466
Short-term borrowings and current portion of long-term debt	30,720	27,089
Other current liabilities		
Total current liabilities of discontinued operations	**56,224**	**54,555**

The result of Lomprom Rostov as discontinued operations was included in the Steel segment. The result of Lomprom Rostov for the year ended December 31, 2013 includes loss on disposal of subsidiary, which was calculated as follows as of the date of disposal:

	July 17, 2013
Consideration received	517
Net assets disposed of	(912)
Accumulated currency translation adjustment attributable to disposal of Lomprom Rostov transferred to the current period income (loss)	5,272
Gain on disposal of Lomprom Rostov	4,877

TFP, Voskhod-Oriel, Voskhod-Chrome, Voskhod Trading

On July 10, 2013, the Group entered into a sale and purchase agreement with a third party to sell 100% of the share capital of Tikhvin Ferroalloy plant (TFP), Voskhod-Oriel LLP (Voskhod-Oriel), Voskhod-Chrome LLP (Voskhod-Chrome) and Voskhod Trading LLP (Voskhod Trading) for a consideration of $425,000. The transfer of shares was completed on December 27, 2013 and the amount of consideration was received in full till the end of the year less income tax of $1,000 withheld by the seller in favor of the government of the Republic of Kazakhstan. The Group also expects to receive $15,096 from the buyer as reimbursement of cash, which was held on bank accounts of disposed companies at the date of disposal, as part of consideration under the sale and purchase agreement. The additional expenses related to the bargain were presented mainly by consulting services of third party banks and amounted to $8,738. The disposal of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading is aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The Group concluded that the disposed companies met the criteria of discontinued operations and excluded the result of disposed component from continuing operations and reported them as discontinued operations for the period ended December 27, 2013 and prior periods.

The intragroup sales to the discontinued component included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $5,063, $7,675 and $11,400 during the years ended December 31, 2013, 2012 and 2011, respectively. The intragroup purchases from the discontinued component included in cost of sales of continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $16,362, $18,095 and $31,487 during the years ended December 31, 2013, 2012 and 2011, respectively. Revenue from intragroup sales of $17,294, $17,992 and $35,912 during the years ended December 31, 2013, 2012 and 2011, respectively, was included net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statement of operations and comprehensive income (loss).

The Group s transactions with the discontinued component were mainly represented by the energy, coal supply to TFP and by the sales of ferroalloy by TFP to Chelyabinsk Metallurgical Plant (CMP) and Izhstal, which are likely to be ceased after the disposal of this entity. The Group will not have significant continuing involvement in the operations of the discontinued component after the disposal transaction.

Following the classification of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading as held for sale, the fair value of net assets was determined. The impairment of property, plant and equipment of $32,712 and of mineral licenses of $842,052 for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax line.

The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for:

		Years ended	
	December 27, 2013	December 31, 2012	December 31, 2011
Revenue, net	**159,040**	**197,894**	**155,442**
	(1,370,570)	(71,787)	(14,240)

Loss from discontinued operations before income taxes			
Income tax benefit (expense)	214,894	7,300	(6,710)
Loss from discontinued operations, net of income tax	**(1,155,676)**	**(64,487)**	**(20,950)**

Revenue from sales of ferroalloys to related parties (Zlatoust Metallurgical Plant, Metallurg-Trust) in the amount of $1,858, $6,352 and $5,190 in the years ended December 31, 2013, 2012 and 2011, respectively, was presented net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statement of operations and comprehensive income (loss).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The carrying amounts of major classes of assets and liabilities of disposed companies presented as discontinued operations in consolidated balance sheets were as follows as of date of disposal and December 31, 2012:

	December 27, 2013	December 31, 2012
Condensed balance sheet selected data		
Cash and cash equivalents	16,161	990
Accounts receivable, net of allowance for doubtful accounts	1,645	822
Due from related parties, net of allowance		2,294
Inventories	16,660	22,790
Deferred income tax	6,172	3,123
Prepayments and other current assets	16,978	13,717
Other long-term investments	183	187
Property, plant and equipment, net	307,505	362,303
Mineral licenses, net	119,458	1,203,536
Other non-current assets	11,556	16,400
Total current assets of discontinued operations	**496,318**	**1,626,162**
Short-term borrowings and current portion of long-term debt		23,500
Accounts payable and accrued expenses	29,757	21,706
Long-term debt		7,833
Deferred income taxes	31,719	252,100
Asset retirement obligation	1,002	1,038
Total current liabilities of discontinued operations	**62,478**	**306,177**

The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading as discontinued operations were included in the Ferroalloy segment. The results of TFP, Voskhod-Oriel, Voskhod-Chrome and Voskhod Trading for the year ended December 31, 2013 includes loss on disposal of subsidiaries, which was calculated as follows as of the date of disposal:

	December 27, 2013
Consideration received (net of consultancy fees)	430,358
Net assets disposed of	(433,840)
Accumulated currency translation adjustment attributable to disposal of subsidiaries transferred to the current period income (loss)	(279,196)
Loss on disposal of subsidiaries	(282,678)

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

SUNP

During the year ended December 31, 2013, the Group made a decision to close Southern Urals Nickel Plant (SUNP) without sale. In July of 2013, the Group received an approval from the governmental authorities to abandon the industrial complex. The closure of SUNP is aligned with the revised strategy aimed at restructuring the Group s assets and development of its core businesses.

On May 25, 2013, the Group approved the plan of staff curtailment according to which a number of SUNP s personnel were reduced to 274 workers by December 31, 2013.

The intragroup sales to SUNP included in revenue from continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $nil, $75,401 and $149,956 during the years ended December 31, 2013, 2012 and 2011, respectively. The intragroup purchases from SUNP included in cost of sales of continuing operations in the consolidated statement of operations and comprehensive income (loss) amounted to $1,078, $29,724 and $102,631 during the years ended December 31, 2013, 2012 and 2011, respectively. Revenue from intragroup sales of $nil, $27,194 and $115,133 during the years ended December 31, 2013, 2012 and 2011, respectively, were included net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statement of operations and comprehensive income (loss). The Group s transactions with SUNP were mainly represented by the coal, energy and limestone supply to SUNP and by the sales of ferroalloy and industrial scrap by SUNP to CMP and Izhstal.

The Group excluded the result of the company from continuing operations and reported them as discontinued operations for the year ended December 31, 2013 and prior periods.

The impairment of property, plant and equipment and nickel mineral license of $965, $93,752 and $nil for the years ended December 31, 2013, 2012 and 2011, respectively, was recognized to reduce the carrying amount of the assets and liabilities of SUNP to their fair value. The impairment of goodwill in the amount of $6,950 was recognized for the year ended December 31, 2012. The impairment loss was recognized in the consolidated statements of operations and comprehensive income (loss) under the Loss from discontinued operations, net of income tax line.

The results of SUNP presented as discontinued operations in the consolidated statements of operations and comprehensive income (loss) were as follows for:

Years ended

	December 31, 2013	December 31, 2012	December 31, 2011
Revenue, net	**2,607**	**196,894**	**378,695**
(Loss) income from discontinued operations before income taxes	(17,843)	(178,291)	10,009
Income tax benefit (expense)		1,191	(1,369)
(Loss) income from discontinued operations, net of income taxes	**(17,843)**	**(177,100)**	**8,640**

Revenue from sales of ferroalloys to related parties (Zlatoust Metallurgical Plant, DEMP) in the amount of $nil, $8,417 and $16,808 in the years ended December 31, 2013, 2012 and 2011, respectively, was presented net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statement of operations and comprehensive income (loss).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The carrying amounts of the major classes of assets and liabilities of SUNP in the consolidated balance sheets were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Condensed balance sheet selected data		
Cash and cash equivalents	201	1,201
Accounts receivable, net of allowance for doubtful accounts	63	1,268
Inventories	1,180	1,421
Prepayments and other current assets	1,822	10,933
Total current assets	**3,266**	**14,823**
Property, plant and equipment and other non-current assets, net	5,024	2,046
Total non-current assets	**5,024**	**2,046**
Total assets	**8,290**	**16,869**
Short-term borrowings and current portion of long-term debt		26,509
Accounts payable and accrued expenses	13,376	38,842
Asset retirement obligation	339	579
Pension obligations		268
Finance lease liabilities, current portion		483
Total current liabilities	**13,715**	**66,681**
Asset retirement obligation	8,466	3,150
Pension obligations		2,064
Total non-current liabilities	**8,466**	**5,214**
Total liabilities	**22,181**	**71,895**

The results of SUNP as discontinued operations are included in the Ferroalloy segment.

(d) Disposal of subsidiaries

During the period from February 15, 2013 through February 18, 2013, the Group disposed of 86.6% interest in Mechel Targoviste S.A., 86.6% interest in Mechel Campia Turzii S.A., 100% interest in Ductil Steel and 90.9% interest in Laminorul S.A. for a nominal consideration of 230 romanian lei ($0.1 as of the date of agreement) paid in cash. The disposal is consistent with the Group s strategy aimed at development of its core business, in particular consolidating the Group s leading position as a metallurgical coal producer.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

All disposed companies were accounted for in the Steel segment. The carrying amounts of major classes of assets and liabilities of disposed companies as of the dates of disposal were as follows:

	February 15-18, 2013
Cash and cash equivalents	547
Other current assets	106,386
Property, plant and equipment	1,530
Other non-current assets	708
Current liabilities	(131,456)
Non-current liabilities	(4,083)
Total net liabilities	**(26,368)**
Accumulated currency translation adjustment attributable to disposal of subsidiaries transferred to the current period income (loss)	(68,952)
Noncontrolling interests	(37,728)
Loss on disposal of subsidiaries	**(80,312)**

The fair value of the Group s net receivables from the disposed companies as of the disposal dates is $nil.

The Group concluded that the disposed companies did not meet the criteria of discontinued operations as of December 31, 2013, because the Group expects that after their disposal there will be significant cash flows from a migration of activities, exceeding a threshold set by the Group of 15% of the cash flows that would have been expected to be generated by the disposed companies absent the disposal transaction.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(e) Goodwill

Balance at December 31, 2010	**884,199**
Acquisition of DEMP (Note 3(c)), Steel segment	205,522
Acquisition of other subsidiaries	5,678
Discontinued operation DEMP (Note 3(e)), Steel segment	(205,522)
Discontinued operation Invicta, Steel segment	(2,721)
Translation difference	(45,860)
Balance at December 31, 2011	**841,296**
Acquisition of Cognor (Note 3(a)), Steel segment	61,949
Acquisition of Lomprom (Note 3(b)), Steel segment	12,830
Discontinued operation Lomprom (Note 3(b)), Steel segment	(12,830)
Impairment (Note 23)	(156,447)
Translation difference	36,017
Balance at December 31, 2012	**782,815**
Impairment (Note 23)	(38,310)
Translation difference	(56,742)
Balance at December 31, 2013	**687,763**

Goodwill arising on the above acquisitions is not deductible for tax purposes.

As of December 31, 2012, the gross amount of goodwill and accumulated impairment losses were $939,262 and $156,447, respectively. As of December 31, 2013, the gross amount of goodwill and accumulated impairment losses were $790,122 and $102,359, respectively.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(f) Noncontrolling interests

The following table summarizes changes in non-controlling interests for the three years ended December 31, 2013, 2012 and 2011:

Balance at December 31, 2010	**319,950**
Purchase of non-controlling interest in existing subsidiaries by the Group	(20)
Change of non-controlling interest due to restructuring of Mechel Minnig OAO	880
Non-controlling share in subsidiaries income	75,562
Translation difference	(25,035)
Balance at December 31, 2011	**371,337**
Purchase of non-controlling interest in existing subsidiaries by the Group	(528)
New acquisitions	54
Effect of change in ownership of subsidiaries	675
Dividends declared to shareholders of Mechel Mining OAO	(8,026)
Dividends declared to shareholders of SKCC	(24,087)
Non-controlling share in subsidiaries income	(317)
Translation difference	23,168
Balance at December 31, 2012	**362,276**
Purchase of non-controlling interest in existing subsidiaries by the Group	(76,080)
Effect from disposal of subsidiaries	37,729
Dividends declared to shareholders of SKCC	(8,876)
Non-controlling share in subsidiaries income	5,047
Translation difference	(25,751)
Balance at December 31, 2013	**294,345**

At various dates during 2013, 2012 and 2011, the Group purchased non-controlling interest in the following subsidiaries:

Year ended December 31, 2011:	**Date of acquisition**	**Non-controlling interest acquired**		**Cash consideration**
		%	**Amount**	
SKCC	January-December	0.02%	20	283
Effect of changes in ownership of subsidiaries within the Group	January-December		(880)	
			(860)	**283**

F-45

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

		Non-controlling interest acquired		
Year ended December 31, 2012:	**Date of acquisition**	**%**	**Amount**	**Cash consideration**
Izhstal	October	1.63%	435	595
BMP	March	0.03%	12	33
Other	July-August	0.03%	81	4
			528	**632**

		Non-controlling interest acquired		
Year ended December 31, 2013:	**Date of acquisition**	**%**	**Amount**	**Cash consideration**
TOPM	March	0.21%	652	33
KMP	August-November	4.40%	37,878	29,158
Mechel Mining OAO	November	1.31%	3,043	57,986
Effect of changes in ownership of subsidiaries within the Group	November		34,507	
			76,080	**87,177**

On different dates from January through December 2011, the Group acquired 0.02% of voting shares of SKCC from third parties for $283 paid in cash. The purchase of non-controlling interest in SKCC was accounted for as an equity transaction (Note 18(e)).

On different dates from July through August 2011, the Group acquired 0.03% of voting shares of Tomusinsky Open Pit from third parties for $4 paid in cash. The purchase of non-controlling interest in Tomusinsky Open Pit was accounted for as an equity transaction (Note 18(e)).

In October 2012, the Group acquired 1.63% of voting shares of Izhstal for $595 paid in cash. The purchase of non-controlling interest in Izhstal was accounted for as an equity transaction (Note 18(e)).

In March 2012, the Group acquired 0.03% of voting shares of BMP for $33 paid in cash. The purchase of non-controlling interest in BMP was accounted for as an equity transaction (Note 18(e)).

In March 2013, the Group purchased 0.21% of TOPM from noncontrolling shareholders for $33 paid in cash. The purchase of non-controlling interest in TOPM was accounted for as an equity transaction (Note 18(e)).

On different dates from August 2013 through November 2013, the Group purchased 4.40% of KMP from non-controlling shareholders for $29,158 cash consideration. The purchase of non-controlling interest in KMP was accounted for as an equity transaction (Note 18(e)).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for $57,986 cash consideration. The transaction was accounted for as an equity transaction (Note 18(e)). The Group has 99.999995% of voting shares of Mechel Mining OAO as of December 31, 2013.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	December 31, 2013	December 31, 2012
Cash and cash equivalents from continuing operations		
Russian ruble bank accounts	21,642	173,613
U.S. dollar bank accounts	213,376	82,659
Euro bank accounts	19,243	14,439
Bank accounts in other currencies	9,143	11,955
Other	5,121	10,903
Total cash and cash equivalents of continuing operations	**268,525**	**293,569**
Cash and cash equivalents of discontinued operations	**6,012**	4,424
Total cash and cash equivalents	**274,537**	**297,993**

As of December 31, 2013, short-term deposits with an original maturity of less than 90 days in the amounts of $191,438, $6,294 and $280 were included in U.S. dollar bank accounts, Russian ruble bank accounts and Bank accounts in other currencies, respectively.

As of December 31, 2012, short-term deposits with an original maturity of less than 90 days in the amounts of $107,004 and $85 were included in Russian ruble bank accounts and Bank accounts in other currencies, respectively.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivables, net are comprised of:

	December 31, 2013	December 31, 2012
Domestic customers	492,159	578,379
Foreign customers	179,528	194,760
Total accounts receivable	671,687	773,139
Less allowance for doubtful accounts	(81,233)	(72,614)
Total accounts receivable, net	**590,454**	**700,525**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following summarizes the changes in the allowance for doubtful accounts for the years ended December 31:

	2013	2012	2011
Balance at beginning of year	(72,614)	(45,128)	(48,496)
Allowance for doubtful accounts	(10,672)	(21,584)	(2,531)
Accounts receivable written off, net	3,562	3,207	3,668
Disposal of subsidiaries	(4,974)		
Allowance for doubtful accounts of acquired entities		(7,784)	(781)
Translation difference	3,465	(1,325)	3,012
Balance at end of year	**(81,233)**	**(72,614)**	**(45,128)**

The increase in the allowance for doubtful accounts in 2013 was due to an increase in the allowance for doubtful accounts in the Group s companies following the deterioration in the collectibility of foreign customers accounts receivable.

6. INVENTORIES

Inventories are comprised of:

	December 31, 2013	December 31, 2012
Finished goods	788,208	1,228,875
Raw materials and purchased parts	392,398	535,255
Work-in-process	196,389	235,806
Total inventories	**1,376,995**	**1,999,936**

As of December 31, 2013 and 2012, the write-down of inventories to their net realizable value following the related market price decreases was $58,600 and $95,385, respectively.

The change in the write-downs of inventories by segment for the years ended December 31 is presented below:

	2013	**2012**	**2011**
Steel segment	(10,157)	13,536	3,873
Mining segment.	6,017	18,399	16,604
Ferroalloy segment	(181)	1	(71)
Energy segment	953	(71)	(207)
Total change in the write-down of inventories	**(3,368)**	**31,865**	**20,199**

F-48

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets are comprised of:

	December 31, 2013	December 31, 2012
VAT and other taxes recoverable	177,678	279,718
Prepayments and advances for materials	60,555	98,141
Capitalized loan origination fees	51,190	44,210
Other receivables	44,387	23,702
Short-term loans issued	7,452	1,932
Promissory notes received	73	11
Bank deposits with original maturities over 90 days		2,782
Other current assets	36,044	31,611
Total prepayments and other current assets	**377,379**	**482,107**

The following summarizes the changes in the allowance for doubtful accounts included in prepayments, other current assets and advances for materials for the years ended December 31:

	2013	2012	2011
Balance at beginning of year	**(18,374)**	**(12,535)**	**(15,637)**
Recovery of allowance (Allowance) for doubtful accounts	1,017	(5,262)	3,758
Disposal of subsidiaries	(20,078)		
Translation difference	2,530	(577)	(656)
Balance at end of year	**(34,905)**	**(18,374)**	**(12,535)**

Generally in Russia, VAT related to sales is payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred on purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions, which is not yet reclaimable against VAT related to sales as of the balance sheet dates, is recognized in the balance sheets on a gross basis, i.e. as other current assets and taxes and social charges payable.

The capitalized origination fees on the Group s loans in the amount of $51,190 and $44,210 as of December 31, 2013 and 2012, respectively, are being amortized using the effective interest method over the loan term. The capitalized origination fees are classified between short-term and long-term assets in a manner consistent with the related debt.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

8. LONG-TERM INVESTMENTS

Long-term investments are comprised of:

	December 31, 2013	December 31, 2012
Equity method investments in related parties	7,604	7,853
Available-for-sale securities	374	2,989
Cost method investments	8,393	9,018
Other	6,020	2,477
Total other long-term investments	14,787	14,484
Total long-term investments	**22,391**	**22,337**

The proceeds from sale of available-for-sale securities and the gross realized loss that have been included in earnings as a result of this sale in 2013 comprised $1,108 and $3,787, respectively ($nil during 2012).

(a) Equity method investments

Equity method investments are comprised of:

	Percent voting shares held at		Investment carrying value at	
Investee	**December 31, 2013**	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Mechel Somani Carbon (Mining segment)	51%	51%	535	560
TPTU (Mining segment)	40%	40%	4,451	4,376
TRMZ (Mining segment)	25%	25%	2,401	2,539
BWS Bewehrungsstahl GmbH (Steel segment)	36%	36%	217	378

Total equity method investments	**7,604**	**7,853**

On December 7, 2012, the Group won an auction to acquire 74,195 common shares (73.33% of the total common shares or 55% of the total shares) of Vanino Sea Trade Port OAO (Port Vanino), the largest seaport in Khabarovsk Krai, located in the Tatar Strait in Russia, for 15.5 billion Russian rubles ($501,444 as of the auction date). The Group s purpose of this transaction is to get a long-term access to the transshipment facilities of the largest seaport in Khabarovsk Krai in order to secure coal sales to the Group s major customers in Southeast Asia, which will grow in the future along with the increasing volumes of coal production at Elga coal deposit.

On January 9, 2013, the shares of Port Vanino were transferred to the Group and the Group made cash payment of 15.5 billion Russian rubles ($486,827 at average 2013 U.S. dollar to Russian ruble exchange rate). On the same date, 72,780 of the acquired shares were sold to several foreign investors and related party (Investors). The aggregate consideration was 15.2 billion Russian rubles ($477,408 at average 2013 U.S. dollar to Russian ruble exchange rate). The main reason for the immediate resale of the vast majority shares acquired at the auction was the significant amount of cash needed to be paid for the controlling stake. On January 28, 2013, the Group acquired additional 21,892 common shares (21.64% of the total common shares or 16.23% of the total

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

shares) and 16,039 preferred shares (47.56% of the total preferred shares or 11.89% of the total shares) of Port Vanino from a minority shareholder. The consideration for the preferred shares was 275 million Russian rubles ($8,635 at average 2013 U.S. dollar to Russian ruble exchange rate) and was fully paid. The consideration for the common shares was 4.77 billion Russian rubles ($149,774 at average 2013 U.S. dollar to Russian ruble exchange rate) and was paid on October 23, 2013 and included an interest payment in the amount of $6,171.

The purchases resulted in 23,307 common shares and 16,039 preferred shares being held by the Group as of January 28, 2013. These shares represented 29.2% of the total share capital of Port Vanino, or 23.04% of the total common shares, which enabled the Group to have significant influence over the operations of the investee. This acquisition was accounted for using the equity method of accounting in accordance with ASC 810 and included within long-term investments in related parties starting from January 28, 2013 till October 23, 2013 when 21,892 common shares and 16,039 preferred shares were sold to a third party for 5.04 billion Russian rubles ($158,427). During this period, income earned by the Group on this investment amounted to $3,306 and was included in the carrying amount of the investment under the equity method of accounting. The remaining shares of Port Vanino were sold to third parties and a related party (Note 9(c)) in July 2013 (810 common shares or 0.60% of the total shares) and in December 2013 (605 common shares or 0.45% of the total shares) for the aggregate consideration of $9,282.

The cost of the investment disposed of in the year ended December 31, 2013 is equal to $642,389 and income on sale in the amount of $2,728 was recognized in the consolidated statement of operations and comprehensive income (loss).

Mechel Somani Carbon Private Limited shares are owned by Mechel Carbon AG. The core business is distribution of metallurgical coals on the Indian market. The noncontrolling interest holders of 49% of the shares have substantive participating rights.

TPTU (Tomusinskiy Transportation Management Center) shares are owned by SKCC. The core business is provision of transportation services both to the Group s subsidiaries and third parties.

TRMZ (Tomusinskiy Auto Repair Shop) shares are owned by SKCC and its subsidiaries. TRMZ provides repair services to the Group s subsidiaries.

BWS Bewehrungsstahl GmBH shares are owned by Cognor. The core business is cutting and processing steel products.

Summarized financial information on equity method investees as of December 31, 2013, 2012 and 2011 and for the years then ended is as follows:

Income data	**2013**	**2012**	**2011**
Revenues and other income	116,967	57,268	43,255
Operating income	17,508	3,664	5,074
Net income	12,051	2,101	3,146

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Balance sheet data	**At December 31, 2013**	**At December 31, 2012**
Current assets	24,619	37,300
Non-current assets	9,520	11,229
Current liabilities	10,824	20,573
Non-current liabilities	623	5,234

The following table shows movements in the equity method investments:

December 31, 2010	**8,764**
Capital contribution in affiliates	571
Translation difference	(555)
Dividends	(934)
Share in net income	304
December 31, 2011	**8,150**
Investment in BWS Bewehrungsstahl GmBH	408
Disposal of RIKT	(822)
Translation difference	379
Dividends	(737)
Share in net income	475
December 31, 2012	**7,853**
Investment in Port Vanino	639,082
Disposal of Port Vanino	(642,389)
Effect of consolidation of former associate	(24)
Translation difference	(507)
Dividends	
Share in net income	3,589
December 31, 2013	**7,604**

During the years ended December 31, 2013, 2012 and 2011, the Group received cash dividends of $nil, $737 and $934, respectively.

(b) Cost method investments

Cost method investments represent investments in equity securities of various Russian companies, where the Group has less than a 20% equity interest and no significant influence. As shares of those Russian companies are not publicly traded, their market value is not available and the investment is recorded at cost.

The investments were not evaluated for impairment because the Group did not identify any events or changes in circumstances that may have a significant effect on the fair value of these investments.

During the years ended December 31, 2013 and 2012, the Group received the dividends from these investments in the total amount of $285 and $25,981, respectively, that was recorded in Other (expenses) income, net (Note 22).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(c) Available-for-sale securities

Investments in available-for-sale securities were as follows as of December 31, 2013:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	1,683	374		(1,309)
Total available-for-sale securities	**1,683**	**374**		**(1,309)**

Investments in available-for-sale securities were as follows as of December 31, 2012:

	Cost	Fair value	Unrealized gains	Unrealized losses
Equity securities	6,469	2,989		(3,480)
Total available-for-sale securities	**6,469**	**2,989**		**(3,480)**

As of December 31, 2013 and 2012, available-for-sale securities represented investments in equity securities of well-established Russian energy companies.

9. RELATED PARTIES

During the years ended December 31, 2013, 2012 and 2011, the Group had the following transactions and current balances in settlement with related parties:

	2013				Balances at December 31, 2013		
	Purchases	Sales	Other gain/(loss)	Financing provided (received),	Receivable from	Payable to	Total outstanding, net

				net			
Related metallurgical plants	613,364	168,956	(517,685)		30,477	(75,448)	(44,971)
Metallurg-Trust		61,066	(195,656)		4	(1)	3
TPTU	5,888	161			5	(560)	(555)
TRMZ	2,063	1,879			253	(1,176)	(923)
Somani	1,420				1,231		1,231
Calridge Ltd.		1	564		3,863		3,863
Port Vanino		4,010	11,638	(204)	2,244	(221)	2,023
Controlling Shareholder						(29,466)	(29,466)
Other	956	998	(688)		18,715	(92)	18,623
Total	**623,691**	**237,071**	**(701,827)**	**(204)**	**56,792**	**(106,964)**	**(50,172)**

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

	2012				Balances at December 31, 2012		
	Purchases	Sales	Other gain/(loss)	Financing provided (received), net	Receivable from	Payable to	Total outstanding, net
Related metallurgical plants	874,135	413,958	(853,911)		253,605	(188,624)	64,981
Metallurg-Trust	441	316,017			155,627	(16)	155,611
Usipar	32,351						
TPTU	5,210	209			19	(560)	(541)
TRMZ	4,509	1,630			265	(2,108)	(1,843)
Somani		6,144			6,144		6,144
Other	405	359	(798)	3,902	4,802	(197)	4,605
Total	**917,051**	**738,317**	**(854,709)**	**3,902**	**420,462**	**(191,505)**	**228,957**

	2011			
	Purchases	Sales	Other gain/(loss)	Financing provided (received), net
Related metallurgical plants	1,555,754	397,049	2,364	944,530
Metallurg-Trust	1,403	422,989		
Usipar	72,114	61,189		
TPTU	5,664	11		
TRMZ	4,446	1,629		
Other	202	10		
Total	**1,639,583**	**882,877**	**2,364**	**944,530**

(a) Transactions with the related metallurgical plants

In the second half of 2009, certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the related metallurgical plants   )

became related parties to the Group through Mechel s representation on the board of directors, management and other arrangements. In 2009, the companies that had business transactions with the Group were as follows: Volga Fest, Rostov Electrometallurgical Plant, Vostochnaya Mine, Experimental TES, Zlatoust Metallurgical Plant (ZMP), Guryevsk Metallurgical Plant (GMP), Volgograd Small Diameter Pipe Plant (VSDPP), and Engels Pipe Plant (EPP). In addition, in 2010, the Group started transactions with Donetsk Electrometallurgical Plant (DEMP), Invicta Merchant Bar, Metrus Trading GmbH, MIR Steel, Nytva, Estar Egypt for Industries. In 2011- 2013, the Group continued its operations with the related metallurgical plants. These transactions were carried out in the joint interest of both parties in expanding the Group s operations and products range on the steel market and allowing the related metallurgical plants access to the Group s strong supply and sales network.

In August 2011, the Group acquired 100% of Invicta Merchant Bar Ltd., a steel plant located in Queenborough, the United Kingdom. In December 2011, the Group acquired DEMP (Note 3(c)).

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

During the years ended December 31, 2013, 2012 and 2011, the Group had the following transactions and current balances in settlement with the related metallurgical plants:

Re-selling of goods purchased by the Group either from third parties or entities of the former Estar group to the related metallurgical plants. Proceeds related to these sales amounted to $25,869, $222,794 and $203,134 in the years ended December 31, 2013, 2012 and 2011, respectively.

For part of such transactions, the Group determined that it functioned as a principal, and the amounts of $14,304, $211,154 and $187,831 were included in revenue from sale of goods in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively. In 2013, 2012 and 2011, these sales included $0, $0 and $54,167, respectively, of goods produced by the related metallurgical plants and resold further to other entities of the former Estar group.

For the other part of such transactions, the Group determined that their results should be recognized as operating gains. Therefore, they are reported, net of related costs, within other operating income (expenses), net in the consolidated statements of operations and comprehensive income (loss) in the amount of $1,455, $1,845 and $2,308 for the years ended December 31, 2013, 2012 and 2011, respectively.

Revenues from sales of products manufactured by the Group and services rendered to the related metallurgical plants amounted to $154,653, $202,805 and $209,219 for the years ended December 31, 2013, 2012 and 2011, respectively.

Cost of the related metallurgical plants products used in the Group s production amounted to $100,201, $104,978 and $283,804 for the years ended December 31, 2013, 2012 and 2011, respectively.

Cost of goods produced by the related metallurgical plants and further sold by the Group to third party customers amounted to $513,163, $769,157 and $1,221,419, including transportation costs, for the years ended December 31, 2013, 2012 and 2011, respectively. For such transactions, the Group determined that it functioned as a principal, and the amounts of $570,511, $847,745 and $1,293,487 were included in revenue from the sale of goods in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively.

The related metallurgical plants used raw materials and semi-finished goods purchased from the Group in their production. The Group concluded that its sales to the related metallurgical plants and the Group s purchases from these entities were not in contemplation with each other and are reported separately in the statement of operations and comprehensive income (loss).

In the second half of 2011, the Group s operations with certain related metallurgical plants (namely VSDPP, EPP and MIR Steel) started to be carried out on tolling terms. In 2013, such operation started with other related metallurgical plants (namely ZMP, GMP, Nytva). Revenues from sales of products (steel pipe, basis steel coils and sheets, long steel) manufactured by the related metallurgical plants for the Group under the tolling agreements amounted to $331,419, $413,087 and $274,466 for the years ended December 31, 2013, 2012 and 211, respectively. The related cost of goods sold for these transactions amounted to $333,963, $403,492 and $262,511 for the years ended December 31, 2013, 2012 and 2011, respectively. This cost includes cost of tolling services provided by the related metallurgical plants of $57,319, $47,351 and $35,614 for the years ended December 31, 2013, 2012 and 2011, respectively.

In November 2011, the owners of the related metallurgical plants and the Group entered into a loan agreement pursuant to which a loan of $944,530 was granted by the Group. The loan consists of several tranches

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

which bear interest at the range of 1-8.5% p.a. To secure the loan, shares in the major related metallurgical plants (or shares in parent companies of such metallurgical plants) were pledged. The proceeds from this loan were used by the related metallurgical plants to repay most of the accounts receivable owed to the Group. According to the loan agreement, in the event that the loan is not repaid at maturity (September 30, 2012), the Group is entitled to enforce the pledge over the pledged related metallurgical plants assets and thereby take control of these assets subject to approval from the Russian Federal Antimonopoly Service.

In September 2012, the Group extended the term of the loan for additional nine months from October 1, 2012, the pledges and guarantees remained the same. From September through December 2012, the loan was partially repaid in the amount of $213,363. To make this repayment, the owners of the related metallurgical plants used the proceeds received by them from the Group for the sale of Cognor and proceeds under a security deposit, as discussed further below.

As of December 31, 2012, the loan balance amounted to $896,445, out of which $15,405 represents interest accrued on extended loan. The interest accrued on the loan amount before the extension was repaid in full. During the year ended December 31, 2013, $5,000 were repaid and the owners of the related metallurgical plants returned the security deposit paid by the Group in the end of 2012 for the acquisition of some assets pledged under the loan agreement.

The Group evaluates the recoverability of the loan amount based on the fair value of the pledged assets which, as of December 31, 2013 and 2012, was $nil. This resulted in a $888,015 and $896,445 provision for amounts due from related parties under this loan and related security deposit recorded as of December 31, 2013 and 2012, respectively. The Group has not taken possession of assets provided as collateral because these entities are burdened with substantial amount of debt.

Based on the combined design of the above mentioned loan and trading agreements, the Group has determined that the related metallurgical plants are Variable Interest Entities (VIEs), and that the Group is not the primary beneficiary of the related metallurgical plants. The Group is limited in its exposure to risks by the net amounts receivable from the related metallurgical plants.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

During the years ended December 31, 2013, 2012 and 2011, the Group had the following transactions and current balances in settlement with the related metallurgical plants:

	2013	2012	2011
Revenues			
Steel segment products sales	99,580	339,840	314,297
Ferroalloy segment products sales	4,245	7,098	14,142
Mining segment products sales	1,956	3,981	4,315
Other revenues*	63,175	63,039	64,295
Total revenues	**168,956**	**413,958**	**397,049**
Costs and expenses			
Cost of goods for resale, production and operating expenses	588,755	842,253	1,528,053
Transportation expenses	24,609	31,693	27,573
Other expenses		189	128
Provision for amounts due from related metallurgical plants	517,724	919,113	
Total expenses	**1,131,088**	**1,793,248**	**1,555,754**

As of December 31, 2013 and 2012, the Group had the following current balances in settlement with related metallurgical plants:

	December 31, 2013	December 31, 2012
Assets		
Trade accounts receivable	14,528	65,474
Prepayments and other current assets	15,949	188,131
Total assets	**30,477**	**253,605**
Liabilities		

Trade accounts payable	74,384	147,050
Advanced received and other payables	1,043	21,921
Long term payables	21	
Loans received		19,653
Total liabilities	**75,448**	**188,624**

* including power segment sales and services provided to related metallurgical plants by all segment companies
As of December 31, 2013 and 2012, the amounts of trade accounts receivable and prepayments and other current assets were reduced by $544,478 and $176,407, respectively, of allowance for doubtful accounts. The allowance for doubtful accounts was recognized based on the Group s estimates of future cash inflows from these balances. The amounts receivable fully covered by the allowance included amounts receivable of $470,809 described below. In December 2013, the Group, Calridge Ltd. (a shareholder in Mechel OAO, an entity

F-57

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

wholly owned by the Controlling Shareholder) and the related metallurgical plants signed an assignment agreement. Under that agreement, the Group assigned to Calridge Ltd. the right to collect amounts due from the related metallurgical plants with the nominal value of $470,809, and Calridge Ltd. is to repay this amount, and interest at a rate of 1.75% p.a., to the Group within 3 years from the agreement date.

Inventories in stock purchased from these entities amounted to $38,443 and $105,260 as of December 31, 2013 and 2012, respectively.

(b) Metallurg-Trust

In 2010, the Group started transactions with a trading company, Metallurg-Trust, a party which can be significantly influenced by the Group through business relationships. Metallurg-Trust is mostly involved in reselling the goods produced by the Russian metallurgical plants described in Note 9(a) above on the domestic market and supplying raw materials and semi-finished goods.

During the years ended December 31, 2013, 2012 and 2011, the Group s sales of pig iron, semi-finished goods, coal and chrome produced by the Group s entities for further supply to the Russian metallurgical plants mentioned above to Metallurg-Trust amounted $61,066, $316,017 and $422,989, respectively.

As of December 31, 2013 and 2012, the Group had receivables from Metallurg-Trust in the amount of $4 and $155,627, respectively. The Group provided to Metallurg-Trust the extended credit terms varying from 30 to 180 days. As of December 31, 2013, an allowance of $190,388 was created against the amount of trade receivables based on the Group s expectation of future cash inflows.

The Group s sales to Metallurg-Trust in the amount of $475, $4,030 and $nil were presented net of related expenses in Loss from discontinued operations, net of income tax line in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2012, the amount of accounts payable to related metallurgical plants and Metallurg-Trust included liabilities under the amicable agreement between Mechel Vtormet Rostov and other related and third parties. This agreement was signed in April 2010 under the following conditions: the repayment of debt is scheduled to be made on monthly equal installments after 3 years grace period through March 2017. As of December 31, 2012, the nominal value of debt to related metallurgical plants and Metallurg-Trust was $26,945 and $965, respectively. The present value of debt to related metallurgical plants and Metallurg-Trust was $20,952 and $775, respectively. The present value of debt was determined using a 12.2% discount rate. As of December 31, 2012, amounts of liabilities at

present value were reflected as liabilities of discontinued operations in the consolidated balance sheet.

(c) Port Vanino

During the year ended December 31, 2013, the Group sold all of its shares of Port Vanino (Note 8). The common shares were partly sold to the Group s related parties: the Controlling Shareholder and Calridge Ltd., a company wholly owned by the Controlling Shareholder, for $5,950 (0.67% of the total shares or 0.9% of the total common shares) and $3,969 (0.45% of the total shares or 0.6% of the total common shares), respectively. As of December 31, 2013, the outstanding balance from Calridge Ltd. to the Group amounted to $3,863.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In August, 2013 the Group received short-term ruble-denominated loan from Port Vanino in the amount of $13,722 at interest rate 9.6% p.a. As of December 31, 2013, the Group s liability under this debt in the amount of $221 was included in payables to related parties. The amount of interest expenses incurred under this loan totaled $286 for the year ended December 31, 2013.

As of December 31, 2013, the Group had receivables from Port Vanino in the amount of $2,244. During the year ended December 31, 2013, the Group s sales of raw material and transportation services to Port Vanino amounted to $4,010. Other income earned by the Group from transactions with Port Vanino comprised $2,274.

(d) Usina Siderurgica do Para Ltda (Usipar)

Usipar is a steel company located in Brazil, owned by the Controlling Shareholder, and it became a related party of the Group in September 2010. During the years ended December 31, 2013, 2012 and 2011, the Group s purchases of pig iron from Usipar amounted $nil, $32,351and $72,114, respectively, and the Group s sales of coke and other raw materials to Usipar amounted $nil, $nil and $61,189, respectively. The Group further sold such pig iron to third party customers. For such transactions, the Group determined that it functioned as a principal, and the amounts of $nil, $34,820 and $75,683 were included in revenue from the sale of goods in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013 and 2012, the Group had no trade accounts receivable from Usipar either prepayments made to Usipar. During the year ended December 31, 2012, Usipar repaid all amounts due to the Group.

(e) Tomusinskiy Transportation Management Center (TPTU)

The Group subsidiaries own 40% of the ordinary shares in TPTU, which provides transportation services. During the years ended December 31, 2013, 2012 and 2011, the Group purchased transportation services in the amounts of $5,888, $5,210 and $5,664, respectively.

(f) Tomusinskiy Auto Repair Shop (TRMZ)

The Group subsidiaries own 25% of the ordinary shares in TRMZ, which provides auto repair services. During the years ended December 31, 2013, 2012 and 2011, the Group purchased repair services in the amounts of $2,063, $4,509 and $4,446, respectively.

(g) Other

During the year ended December 31, 2013, the Group signed a number of re-assignment agreements with respect to the accounts receivable due from related metallurgical plants and Metallurg-Trust in the total amount of $99,367. The Group disclosed the balances due from assignees as receivables from related parties. As a result of the re-assignment transactions, the Group received cash of $81,285. As of December 31, 2013, the balance due from related parties amounted to $18,082 and should be paid within 180-365 days from the date of the agreement. The above mentioned receivables on re-assignment transactions had no effect on the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2013.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net are comprised of:

	At December 31, 2013	At December 31, 2012
Land	97,360	100,651
Buildings and land improvements	1,431,113	1,256,803
Transfer devices	118,562	120,293
Operating machinery and equipment .	2,723,923	2,837,073
Transportation equipment and vehicles	905,871	895,215
Tools, furniture, fixtures and other	57,137	38,221
	5,333,966	5,248,256
Less: accumulated depreciation	(2,151,401)	(1,943,719)
Operating property, plant and equipment, net	3,182,565	3,304,537
Mining plant and equipment	384,805	432,536
Less: accumulated depletion	(77,590)	(78,491)
Mining plant and equipment, net	307,215	354,045
Construction-in-progress	3,346,466	3,519,784
Property, plant and equipment, net	**6,836,246**	**7,178,366**

Included within construction-in-progress are advances to suppliers of equipment of $62,435 and $71,140 as of December 31, 2013 and 2012, respectively. During the years ended December 31, 2013 and 2012, the Group incurred interest expenses of $969,813 and $892,815, respectively, of which interest capitalized in the cost of property, plant and equipment was $227,771 and $240,150, respectively. The depreciation charge amounted to $393,693 and $382,698 for the years ended December 31, 2013 and 2012, respectively.

Mining plant and equipment, net included mining construction in progress in the amount of $152,075 and $181,838 as of December 31, 2013 and 2012, respectively.

Construction-in-progress includes costs of acquisition of property, plant and equipment and may include the capitalized costs necessary to deliver the asset to its intended location and prepare it for its productive use. The internally developed assets at construction-in-progress stage may also include material, direct labor costs, and allocable material and manufacturing overhead costs clearly related to the construction.

Property, plant and equipment, net also includes capitalized costs related to the Elga project (construction-in-progress, mining plant and equipment and operating property, plant and equipment). The amount of capitalized costs related to the Elga project (coal deposit complex, railroad, bridges, roads, etc.) were $2,515,707 and 2,500,102 as of December 31, 2013 and 2012, respectively.

The Group decided to abandon and dispose of certain production equipment as a result of changes in its production strategy. For the year ended December 31, 2013, the loss resulting from write-off of equipment amounted to $17,829 out of which $16,933 and $896 related to the Mining and Steel segments, respectively. For the year ended December 31, 2012, the loss resulting from the write-off of equipment amounted to $10,048, out of which $7,289, $2,163, $590, $6 related to the Mining, Steel, Ferroalloy and Energy segments, respectively.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

According to the results of the impairment analysis of long-lived assets, no impairment loss for the year ended December 31, 2013 was recognized (Note 23), and an impairment loss of $238,144 was recognized for the year ended December 31, 2012.

11. MINERAL LICENSES, NET

Mineral licenses, net are comprised of the following:

	December 31, 2013	December 31, 2012
Coal deposits	3,792,326	3,917,536
Iron ore deposits	83,868	91,376
Limestone deposits	2,645	2,851
Quartzite deposits	286	307
Mineral licenses before depletion	3,879,125	4,012,070
Accumulated depletion	(608,107)	(556,950)
Mineral licenses, net	**3,271,018**	**3,455,120**

Most of existing mineral licenses were recorded upon acquisition of mining and ferroalloy subsidiaries. Fair values of mineral licenses pertaining to the appraised underlying mineral assets at the date of acquisition were determined by the Group based on appraisals performed by independent mining engineers for each acquisition date. The carrying values of the mineral licenses were reduced proportionate to the depletion of the respective mineral reserves at each deposit related to mining and production of reserves adjusted for the reserves re-measurement and purchase accounting effects. No residual value is assumed in the mineral license valuation.

To determine the value of the mineral licenses as of December 31, 2013, the Group used quantities of underlying mineral assets, production data and other factors, including economic viability and any new exploration data.

The Group s mining segment production activities are located within Russia and the United States. The Group s mineral reserves and deposits are situated on the land belonging to government and regional authorities. In Russia, mining minerals require a subsoil license from the state authorities with respect to identified mineral deposits. The Group

obtains licenses from such authorities and pays certain taxes to explore and produce from these deposits. These licenses expire up to 2037, with the most significant licenses expiring between 2014 and 2024, and management believes that they may be extended at the initiative of the Group without substantial cost. Management intends to extend such licenses for deposits expected to remain productive subsequent to their license expiry dates. In the United States, the Group controls coal reserves and resources through a combination of lease and ownership. The leases contain percentage royalties, which vary from 3% to 8.5% and depend on coal selling prices and most of these leases contain minimums recoupable from the future production. The leases expire over the period from 2014 to 2018, and they generally contain extension clauses.

The Group holds the license for the development of the Elga coal deposit, located in the Far Eastern part of the Russian Federation. The current license expires in 2020 and is subject to renewal conditioned upon complying with certain commitments and obligations undertaken by the Group under the Purchase and Sales Agreement and the license requirements. The license terms were amended in June 2013, and the Group is

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

required to meet the following construction deadlines and operational milestones: (a) complete construction of the first phase of the Elga coal complex by August 1, 2017; (b) reach annual coal production capacity of 9.0 million tonnes by August 1, 2018; (c) reach annual coal production capacity of 18.0 million tonnes by December 31, 2021; and (d) commission a coal washing plant with an annual capacity of 9.0 million tonnes by December 31, 2017. All amendments of the terms of the license were approved by the Ministry of Natural Resources and Ecology.

The Group has significant commitments for the construction of the railway (Note 25). Management believes that as of May 15, 2014, the Group is in compliance with the requirements and commitments set by the license.

12. OTHER NON-CURRENT ASSETS

Other non-current assets are comprised of the following:

	December 31, 2013	December 31, 2012
Capitalized loan origination fees	82,375	83,236
Prepaid royalty	26,148	26,187
Advance payment to non state pension fund	17,177	15,934
Intangible assets, net	12,860	16,441
Deferred assets from sale and lease back	11,582	13,574
Prepaid bonds	5,310	5,252
Other	3,936	5,212
Total other non-current assets	**159,388**	**165,836**

As of December 31, 2013 and 2012, advanced payments of $17,177 and $15,934 were made by Yakutugol in terms of agreed pension benefit program to Mechel Fund non-state pension funds (Note 16).

As of December 31, 2013 and 2012, the amounts of $71,815 and $69,661, respectively, related to capitalized origination fees on bank loans that were recorded as a non-current asset, and are being amortized using the effective interest method over the loan term (Note 13). The capitalized origination fees are classified between short-term and long-term assets in a manner consistent with the related debt. The Export Credit Agency (ECA) fees capitalized within loan origination fees amounted to $10,560 and $13,575 as of December 31, 2013 and 2012, respectively. The ECA

fees are the export credit insurance cover issued by the respective Export Credit Agency acting as an intermediary between national governments and exporters to issue export financing.

As of December 31, 2013 and 2012, the BCG Companies had total bonding requirements of $25,184, and $21,170, respectively of which $5,310 and $5,252 is collateralized by cash deposits and investments that are included in Bank deposits with original maturities over 90 days and Prepaid bonds as of December 31, 2013 and 2012, respectively. As of those dates, the insured bonding program included bonding capacity of $41,000 and $50,000, respectively, of which $21,261 and $20,860, respectively, is utilized under an insured program that contained $5,000 and $4,942, respectively, in cash and investment collateral. Insurers have the right to increase collateral requirements should they consider it necessary to lower their risks. In March 2013, the BCG Companies increased its insured bonding requirements by $3,078 to secure permits for a slurry impoundment at its Coal Mountain operation.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

13. DEBT

	December 31, 2013		December 31, 2012	
Short-term borrowings and current portion of long-term debt:	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	201,836	9.0-15.3	40,629	15.3
Corporate lenders	2,397	8.3-10.0	2,126	0.0
Total	204,233		42,755	
U.S. dollar-denominated:				
Banks and financial institutions	128,771	2.3-8.0	15,698	1.8
Total	128,771		15,698	
Euro-denominated:				
Banks and financial institutions			49,809	1.1-4.5
Corporate lenders	4,833	2.8	3,831	2.9
Total	4,833		53,640	
Romanian lei-denominated:				
Banks and financial institutions			46,055	9.9
Total			46,055	
Kazakh tenge-denominated:				
Banks and financial institutions	10,416	9.5	16,585	9.5
Total	10,416		16,585	
Turkish lira-denominated:				
Banks and financial institutions	2,126	9.0	6,222	11.0-14.0
Total	2,126		6,222	

Total short-term borrowings	350,379	180,955
Current portion of long-term debt	1,134,533	1,255,277
Total short-term borrowings and current portion of long-term debt	**1,484,912**	**1,436,232**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The weighted average interest rate of the ruble-denominated short-term borrowings as of December 31, 2013 and 2012 was 9.4% and 14.4% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated short-term borrowings as of December 31, 2013 and 2012 was 7.1% and 1.8% p.a., respectively. The weighted average interest rate of the euro-denominated short-term borrowings as of December 31, 2013 and 2012 was 2.8% and 3.5% p.a., respectively. The weighted average interest rate of the Romanian lei-denominated short-term borrowings as of December 31, 2012 was 9.9% p.a. The weighted average interest rate of the Kazakh tenge-denominated short-term borrowings as of December 31, 2013 and 2012 was 9.5%. The weighted average interest rate of the Turkish lira-denominated short-term borrowings as of December 31, 2013 and 2012 was 9.0% and 13.3% p.a., respectively.

	December 31, 2013		**December 31, 2012**	
Long-term debt, net of current portion:	**Amount**	**Rate p.a., %**	**Amount**	**Rate p.a., %**
Russian ruble-denominated:				
Banks and financial institutions	3,845,766	7.5-14.6	2,938,742	7.5-14.0
Bonds issue	1,306,303	8.3-13.0	2,401,563	8.3-11.3
Corporate lenders	189	0.0	236	0.0
Total	5,152,258		5,340,541	
U.S. dollar-denominated:				
Syndicated loan	1,003,964	5.7	1,003,964	5.3
Banks and financial institutions	1,877,063	1.7-10.9	2,224,030	1.9-7.9
Corporate lenders	13,698	5.1-9.0	20,325	0.0-8.4
Total	2,894,725		3,248,319	
Euro-denominated:				
Banks and financial institutions	607,300	1.1-6.8	585,274	1.0-7.3
Total	607,300		585,274	
Turkish lira-denominated:				
Banks and financial institutions	467	8.5	2,798	11.9
Total	467		2,798	

Total long-term obligations	8,654,750	9,176,932
Less: current portion	(1,134,533)	(1,255,277)
Total long-term debt, net of current portion	**7,520,217**	**7,921,655**

The weighted average interest rate of the ruble-denominated long-term borrowings as of December 31, 2013 and 2012 was 10.9% and 10.3% p.a., respectively. The weighted average interest rate of the U.S. dollar-denominated long-term borrowings as of December 31, 2013 and 2012 was 6.6% and 5.8% p.a., respectively. The weighted average interest rate of the euro-denominated long-term borrowings as of December 31, 2013 and 2012 was 3.1% and 3.6% p.a., respectively. The weighted average interest rate of the Turkish lira-denominated long-term borrowings as of December 31, 2013 and 2012 was 8.5% and 11.9%, respectively.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Aggregate scheduled maturities of the debt outstanding as of December 31, 2013, are as follows:

Payable by:	
2014 (current portion)	1,484,912
2015	2,918,184
2016	2,530,701
2017	1,287,740
2018	650,074
Thereafter	133,518
Total	**9,005,129**

The unused portion under all credit facilities as of December 31, 2013 and 2012 was $280,829 and $580,939, respectively. As of December 31, 2013, the Group s credit facilities provided aggregated borrowing capacity of $9,285,958, of which $1,765,741 expires within a year.

The outstanding balances of short-term and long-term debt by denominated currencies and major banks as of December 31, 2013 and 2012 were as follows:

Short-term and long-term debt:	**December 31, 2013 Amount**	**December 31, 2012 Amount**
Russian ruble-denominated:		
VTB	1,742,026	962,128
Bonds	1,306,303	2,401,563
Sberbank	1,220,212	1,057,451
Gazprombank	992,550	817,520
Eurasian Development Bank	71,322	92,227
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)		31,606
Other	24,078	20,801
Total	5,356,491	5,383,296

U.S. dollar-denominated:		
Gazprombank	1,313,153	1,500,000
Syndicated credit facility	1,003,964	1,003,964
Fortis Bank	168,948	148,712
Alfa-bank	150,000	150,000
MCB	105,000	
Sberbank	100,000	100,000
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	51,429	196,313
Raiffeisen Bank	43,250	43,250
VEB	33,348	
ING Bank	19,260	
Uralsib	10,000	50,000
Other	25,144	71,778
Total	3,023,496	3,264,017

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Short-term and long-term debt:	December 31, 2013 Amount	December 31, 2012 Amount
Euro-denominated:		
Fortis Bank	294,028	205,905
UniCredit Bank (former Bayerische Hypo-und-Vereinsbank)	67,305	78,289
Uralsib	48,090	46,357
ING Bank	47,844	85,025
VTB	44,929	66,924
Gazprombank	37,098	35,762
Raiffeisen Bank	10,260	25,726
Sberbank		7,174
Other	62,579	87,752
Total	612,133	638,914
Kazakh tenge-denominated:		
Sberbank	10,416	16,585
Total	10,416	16,585
Turkish lira-denominated:		
Other	2,593	9,020
Total	2,593	9,020
Romanian lei-denominated:		
Raiffeisen Bank		46,055
Total		46,055
Total short-term and long-term debt	**9,005,129**	**9,357,887**

(a) Revolving credit lines

In 2010-2013, the Group negotiated revolving credit agreements providing for unrestricted borrowings up to $1,017,404 with several banks. These revolving credit lines allow the Group to withdraw, repay and re-draw in the agreed amounts, timing and number of times until the arrangement expires. Borrowings bear interest at 4.3-11.0% p.a., and are continuously renewable at the Group s option for 1-4 years provided there is compliance with the terms of the agreement.

As of December 31, 2013, the Group intends to renew obligations in the amount of $128,857 incurred under those agreements for a period extending beyond one year from the balance sheet date. Accordingly, the long-term debt maturing in one year or earlier was excluded from current liabilities because the Group consummated a financing agreement meeting the conditions set forth in FASB ASC 470-10, Debt (ASC 470), prior to the issuance of the balance sheet.

(b) Syndicated loan

In September 2010, the Group executed a $2,000,000 syndicated pre-export facility agreement and refinanced its remaining debt obligations under previously obtained credit facilities. The facility was split

F-66

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

between CMP, SKCC, SUNP and Yakutugol in the amounts of $95,238, $857,143, $190,476 and $857,143, respectively. The facility was drawn in two tranches, a 3-year and a 5-year tranche in amount of $800,000 and $1,200,000, respectively. The repayment was scheduled in monthly installments after the 9 and 15 month grace periods, respectively. The credit facility bears interest at a rate of LIBOR plus 4.0-5.8% p.a.

The Group appointed ING Bank N.V. and The Royal Bank of Scotland N.V. as Co-ordinators. In addition, BNP Paribas SA, CJSC UniCredit Bank, Commerzbank Aktiengesellschaft, HSBC Bank plc, Natixis, OJSC Nordea Bank , Raiffeisen Zentralbank Oesterreich AG, Société Générale, UniCredit Bank AG, VTB Bank (Austria) AG, VTB Bank (Deutschland) AG and VTB Bank (France) SA acted as Mandated Lead Arrangers and Morgan Stanley and Credit Suisse as Lenders for the facility.

In December 2012, the Group s subsidiaries Yakutugol and SKCC and a syndicate of banks coordinated by ING Bank N.V., Société Générale, UniCredit, JSCB Rosbank and ABN AMRO Bank N.V. entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of $1,003,964. The amendments provide that the loan, which was in a monthly repayment phase, will be repayable in equal monthly installments from December 2013 through August 2015. CMP and SUNP repaid the facility in the amount of $252,275 by the end of December 2012. As of December 31, 2013, the amended facilities bear interest rate at LIBOR plus 5.5% p.a.

In December 2013, the Group s subsidiaries Yakutugol and SKCC and the syndicate of banks signed an amendment agreement that extends the grace period and maturity from December 2013 and August 2015, respectively, till December 2014 and December 2016, respectively. The interest rate remained unchanged. The outstanding balance as of December 31, 2013 and 2012 amounted to $1,003,964.

(c) VTB facilities

During 2008, VTB provided a short-term ruble-denominated loan to the Group s subsidiaries (CMP, SKCC and Yakutugol) bearing interest at 12.0% p.a., which was increased by the bank in November 2009 up to 14.6% p.a. for Yakutugol and SKCC and up to 14.0% p.a. for CMP.

In September 2010, the interest rate was decreased to 9.8% p.a. for SKCC. In April 2011, the interest rate was decreased to 8.4% p.a. for SKCC and Yakutugol. In accordance with an amendment to the agreement, the loan should be repaid in November 2012. In April 2012, VTB signed an amendment resulting in a repayment of the facility in four equal installments starting from July 2014 through April 2015. The interest rate was agreed to be MosPrime plus 4.5% p.a. In 2013, the interest rate was decreased to MosPrime plus a margin 3.8% p.a. The outstanding balance as of

December 31, 2013 and 2012 was $488,056 and $447,770, respectively.

In April 2013, the Group entered into a 40 billion Russian rubles ($1,281,698 as of the date of agreement) credit facility agreement with VTB for a period of 5 years. The interest rate was agreed to be MosPrime plus 4.95% p.a. The facility allows a 15-month grace period and is to be repaid in equal installments on a quarterly basis. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within the Group (including redemption of ruble bonds). The outstanding balance as of December 31, 2013 was $1,230,422 (including accrued but no paid interests in the amount of $8,272).

In April 2014, the Group and VTB agreed on conditions of restructuring and refinancing of various U.S. dollar, euro and ruble-denominated credit facilities amounting in aggregate to $1,302,948 (at rates as of

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

December 31, 2013) maturing in four years with a grace period till April 2015 (Note 26). The Group reclassified the amount of $303,277 from current liabilities to long-term debt as it has ability and intent to refinance the existing obligation. The interest rate remained unchanged under most credit tranches. In addition, it was agreed that VTB provides a loan to redeem the bonds in the amount up to 3.8 billion rubles ($116,104 as of December 31, 2013). The Group reclassified the amount of $81,439 from current liabilities to long-term debt as it has ability and intent to refinance the existing obligations (Note 10(g)).

During 2010-2013, VTB also provided euro-denominated long-term and short-term loans to the Group, bearing interest at 5.3-5.4% p.a. The outstanding balance as of December 31, 2013 and 2012 was $44,929 and $503,129, respectively.

(d) Gazprombank facilities

In February 2010, the Group signed a prolongation agreement for a $1,000,000 U.S. dollar-denominated credit facility with Gazprombank. According to this agreement, the credit facility including the short-term portion of $480,000 falling due in 2010 was rescheduled to be repaid in 2013-2015. Starting from October 25, 2011 through February 6, 2015, the credit facility bears interest at LIBOR plus 5.3% p.a.

In April 2013, Yakutugol and SKCC signed new loan agreements for the $889,000 U.S. dollar-denominated credit facilities resulting in a rescheduling of outstanding short-term balances of $202,443 and $250,000, respectively, maturing in five years with a three year grace period and bearing interest at 7.5% p.a. Yakutugol s outstanding balance as of December 31, 2013 was $461,889, and unused portion was $27,111. SKCC s outstanding balance as of December 31, 2013 was $351,264, and unused portion was $48,736.

In April 2012, Yakutugol and SKCC also signed loan agreements with Gazprombank for credit facilities in the amount of $500,000 maturing in five years with a three year grace period bearing interest at 7.5% p.a. The outstanding balance as of December 31, 2013 and 2012 was $500,000.

The obligations under the credit agreement are guaranteed by Mechel OAO, Mechel Mining OAO, SKCC and Yakutugol.

In March 2014, the Group signed an amendment to the euro-denominated loan agreement with Gazprombank (Switzerland) rescheduling the outstanding short-term balance of $37,098 maturing in March 2016. The interest rate was changed to 6M LIBOR plus 5.25% p.a. The Group reclassified the outstanding amount from current liabilities to long-term debt as it has ability and intent to refinance the existing obligations.

(e) Sberbank facilities

On October 9, 2012, Sberbank opened four credit lines to our subsidiary SKCC in the total amount of 24 billion Russian rubles ($772,258 as of the dates when facilities were obtained) for the purpose of working capital financing, falling due in five years. The repayment should be made in eight equal installments starting from December 2015 through October 2017. As of December 31, 2013 and 2012, the outstanding balance was $692,329 and $452,777, respectively.

Interest is payable at a floating rate varying from 12.1% p.a. to 13.1% p.a. per year for two of six credit lines and from 10.5% p.a. to 11.5% p.a. per year for the other four credit lines. The exact rate applicable to each loan

F-68

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

depends on the ratio of SKCC s revenue and the current amount of the liabilities under the loan. As of December 31, 2013, the interest rates were 12.1% -14.6 % p.a., including the effect of amortization of debt discounting using the effective interest method. The obligations under the credit line agreement are guaranteed by Yakutugol, Mechel Mining OAO and Mechel OAO.

In addition to a 24 billion Russian rubles ($772,258 as of the dates when facilities were obtained) credit facility, during 2009-2013, Sberbank provided long-term and short-term ruble, U.S. dollar, Kazakh tenge and euro-denominated loans to the Group s subsidiaries bearing interest at 6.2-14.0% p.a. The outstanding balance as of December 31, 2013 and 2012 was $638,299 and $759,766, respectively.

In December 2013, the Group and Sberbank agreed the amendments of loan agreements restructuring for the credit facilities in the amount up to 13 billion Russian rubles ($388,586 as of December 31, 2013) maturing in five years with a grace period till March 2015 bearing interest at 12.0% p.a. for certain credit tranches while for other credit tranches the interest rate remained unchanged. In addition, it was agreed that Sberbank provides a loan to redeem the bonds in the amount up to 12 billion rubles ($369,700 as of December 31, 2013). The Group reclassified the amount of $101,201 from current liabilities to long-term debt as it has ability and intent to refinance the existing obligations (Note 10(g)).

(f) VEB facility

On October 24, 2013, Elgaugol OOO (Elgaugol) and the Russian State Corporation The Bank for Development and Foreign Economic Affairs (VEB) signed an agreement for a short-term $150,000 credit facility falling due in April 2014. This bridge facility is the first tranche of a $2.5 billion VEB financing for the Elga coal project approved by the VEB s Supervisory Board in September 2013. The use of proceeds under the facility is limited to the development of the Elga coal project. The facility bears interest at 8% p.a. Elgaugol s outstanding balance as of December 31, 2013 was $33,348, and unused portion was $116,652.

In March 2014, the Group signed two other agreements with VEB for the remaining tranches financing for the Elga coal project in the total amount of a $2.5 billion to refinance the current credit facility falling due in April 2014 (Note 26). The Group reclassified the amount of $33,348 from current liabilities to long-term debt as it has ability and intent to refinance the existing obligations.

(g) Bonds

On June 21, 2006, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($184,877 as of the placement date). The bonds were issued at 100% par value. Interest was payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 8.4% p.a. The interest rate for the second to the eighth coupon periods was set as equal to that of the first period. The bondholders had an option to demand repayment of the bonds at par value starting June 21, 2010 and November 16, 2011. The interest rate for the ninth and tenth coupon was set at 8.5% p.a. The interest rate for the eleventh to the fourteenth coupon periods was set at 7.4% p.a. The costs related to the issuance of bonds in the amount of $762 were capitalized and were amortized to interest expense over the term of bonds. The bonds were redeemed on June 12, 2013 in full amount.

On July 30, 2009, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($159,154 as of the placement date). The bonds were issued at 100% par

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

value. Interest is payable every 3 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 19% p.a. The interest rate for the second to the twelfth coupon periods is set as equal to that of the first period. The interest rate for the thirteenth to the sixteenth coupon periods was set at 11.3% p.a. The interest rate for the seventeenth to the twenty-eighth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. Bondholders have an option to demand repayment of the bonds at par value starting January 27, 2014. The obligatory redemption date is July 21, 2016. Bonds are secured by a guarantee issued by Yakutugol. The costs related to the issuance of bonds in the amount of $1,901 were capitalized and were amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2013 was $60,640 and is classified as current debt as the Group has ability and intent to pay off the bonds in case of early redemption.

On October 20, 2009, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($170,327 as of the placement date). The bonds were issued at 100% par value. Interest was payable every 3 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 12.5% p.a. The interest rate for the second to the twelfth coupon periods was set as equal to that of the first period. The interest rate for the thirteenth to the fourteenth coupon periods was set at 11.3% p.a. The interest rate for the fifteenth to the thirty-sixth coupon periods was set by the Group and made public 5 days before the respective coupon period starts. The obligatory redemption date was October 9, 2018. Bonds were secured by a guarantee issued by Yakutugol. The costs related to the issuance of bonds in the amount of $697 were capitalized and were amortized to interest expense over the term of bonds. The bonds were redeemed on April 19, 2013 in full amount.

On March 16, 2010, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($170,443 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 9.8% p.a. The interest rate for the second to the sixth coupon periods was set as equal to that of the first period. The obligatory redemption date was March 12, 2013. The costs related to the issuance of bonds in the amount of $1,453 were capitalized and are amortized to interest expense over the term of bonds. The bonds were redeemed on March 17, 2013 in full amount.

On April 28, 2010, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($172,044 as of the placement date). The bonds were issued at 100% par value. Interest was payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 9.8% p.a. The interest rate for the second to the sixth coupon periods was set as equal to that of the first period. The obligatory redemption date was April 24, 2013. The costs related to the issuance of bonds in the amount of $320 were capitalized and were amortized to interest expense over the term of

bonds. The bonds were redeemed on April 23, 2013 in full amount.

On September 7, 2010, Mechel OAO issued two 5,000,000 ruble-denominated bonds in an aggregate principal amount of 10 billion Russian rubles ($327,042 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 10.0% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth coupon periods is set by the Group and made public 5 days before the respective coupon period starts.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The bondholders have an option to demand repayment of the bonds at par value starting August 27, 2015. The obligatory redemption date is August 25, 2020. The costs related to the issuance of bonds in the amount of $808 were capitalized and are amortized to interest expense over the term of bonds. The balance outstanding as of December 31, 2013 was $305,538 and is classified as long-term debt.

On February 22, 2011, Mechel OAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of 10 billion Russian rubles ($342,996 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 8.3% p.a. The interest rate for the second to the sixth coupon periods is set as equal to that of the first period. The interest rate for the seventh to twentieth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The costs related to the issuance of bonds in the amount of $2,061 were capitalized and are amortized to interest expense over the redemption date of bonds. The obligatory redemption date is February 9, 2021. The bondholders have an option to demand repayment of the bonds at par value starting February, 2014. The outstanding balance as of December 31, 2013 in the amount of $213,578 for both issues is classified as long-term debt as the Group has ability and intent to refinance the demand repayment under bond option of February 20, 2014 through the credit facilities under Sberbank and VTB loan agreements (Note 13 (c, e)) and additional bond issue in January-February 2014. The remaining balance as of December 31, 2013 in the amounts of $91,960 is classified as short-term debt as the next option to demand repayment is scheduled on August 21, 2014.

On June 9, 2011, Mechel OAO made two issues of 5,000,000 ruble-denominated bonds each in an aggregate principal amount of 10 billion Russian rubles ($361,210 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 8.4% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting May 29, 2016. The obligatory redemption date is May 27, 2021. The costs related to the issuance of bonds in the amount of $1,095 were capitalized and are amortized to interest expense over the redemption date of bonds. The balance outstanding as of December 31, 2013 in amount of $305,538 is classified as long-term debt.

On June 14, 2011, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($179,916 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined upon the issuance based on the bids of buyers and amounted to 8.4% p.a. The interest rate for the second to the tenth coupon periods is set as equal to that of the first period. The interest rate for the eleventh to twentieth coupon periods is set by the Group

and made public 5 days before the respective coupon period starts. The bondholders have an option to demand repayment of the bonds at par value starting June 3, 2016. The obligatory redemption date is June 1, 2021. The costs related to the issuance of bonds in the amount of $487 were capitalized and are amortized to interest expense over the redemption date of bonds. The balance outstanding as of December 31, 2013 in amount of $152,769 and is classified as long-term debt.

On February 14, 2012, Mechel OAO issued 5,000,000 ruble-denominated bonds in an aggregate principal amount of 5 billion Russian rubles ($167,295 as of the placement date). The bonds were issued at 100% par value. Interest is payable every 6 months in arrears. The interest rate for the first coupon period was determined

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

upon the issuance based on the bids of buyers and amounted to 10.3% p.a. The interest rate for the second to the fourth coupon periods is set as equal to that of the first period. The interest rate for the fifth to sixth coupon periods is set by the Group and made public 5 days before the respective coupon period starts. The costs related to the issuance of bonds in the amount of $573 were capitalized and are amortized to interest expense over the redemption date of bonds. The bondholders have an option to demand repayment of the bonds at par value starting February, 2014. The obligatory redemption date is February 10, 2015. The outstanding balance as of December 31, 2013 in the amount of $152,769 is classified as long-term debt as the Group has ability and intents to refinance the demand repayment under bond option of February 11, 2014 through the credit facilities under VTB loan agreement (Note 13 (c)) and additional bond issue in January-February 2014.

On April 10, 2012, Mechel OAO made five issues of ruble-denominated bonds in an aggregate principal amount of 15 billion Russian rubles ($506,145 as of the placement date). The bonds were issued at 100% par value. Interest was payable every 6 months in arrears. The interest rate for all coupon periods amounted to 11.3% p.a. The obligatory redemption date was April 7, 2015. The costs related to the issuance of bonds in the amount of $252 were capitalized and were amortized to interest expense over the redemption date of bonds. The bonds were redeemed on April 24, 2013 in full amount.

(h) Other loans

In addition to U.S. dollar-denominated credit facility issued for Yakutugol and SKCC, Gazprombank provided long-term ruble and euro-denominated loans to the Group s subsidiaries bearing interest at 4.4-11.0% p.a. The outstanding balances as of December 31, 2013 and 2012 were $942,795 and $853,282, respectively.

In addition to a 24 billion Russian rubles ($772,258 as of the dates when facilities were obtained) credit facility, during 2009-2013, Sberbank provided long-term and short-term ruble, U.S. dollar, Kazakh tenge and euro-denominated loans to the Group s subsidiaries bearing interest at 6.3-14.0% p.a. The outstanding balance as of December 31, 2013 and 2012 was $638,299 and $759,766, respectively.

In 2012, Uralsib Bank provided BMP and Mechel-Trans with long-term U.S. dollar and euro-denominated loans bearing interest at 6.8-7.3% p.a. The outstanding balance as of December 31, 2013 and 2012 was $58,090 and $96,357, respectively. In December 2013, the Group signed the agreements to refinance the existing facilities of BMP and Mechel-Trans, subject to a repayment in different installments during the period of April 2014-February 2015. The Group reclassified the amount of $45,724 from current liabilities to long-term debt as it has ability and intent to refinance the existing obligations.

During 2006-2013, UniCredit Bank provided short-term and long-term U.S. dollar, ruble and euro-denominated loans to the Group s subsidiaries bearing interest at 2.0-4.8% p.a. The outstanding balance as of December 31, 2013 and 2012 was $118,734 and $306,208, respectively.

During 2007-2013, Fortis Bank provided the Group s subsidiaries with U.S. dollar and euro-denominated loans bearing interest at 1.6-7.1% p.a. The outstanding balance as of December 31, 2013 and 2012 was $462,976 and $354,617, respectively.

During September 2013, Alfa-bank provided CMP with long-term U.S. dollar-denominated loans bearing interest at 10.9% p.a. in the total amount of $150,000. The outstanding balance as of December 31, 2013 was $150,000. The Group and Alfa-bank signed the amendment to the loan agreement in March, 2014 rescheduling the credit facility under which the loan was repaid in March-April 2014.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

During 2011-2012, Eurasian Development Bank provided Yakutugol with a long-term ruble-denominated loan bearing interest at 11.5% in the total amount of $95,319 (as at the date of agreement). The outstanding balance as of December 31, 2013 and 2012 was $71,322 and $92,227, respectively.

In 2008-2013, ING bank provided the Group s subsidiaries with short-term and long-term multi-currency-denominated loans bearing interest at 1.6-3.8% p.a. The outstanding balance as of December 31, 2013 and 2012 was $67,104 and $85,025, respectively.

In 2009-2012, Raiffeisenbank provided the Group s subsidiaries with short-term and long-term multi-currency-denominated loans bearing interest at 2.5-5.7% p.a. The outstanding balance as of December 31, 2013 and 2012 was $53,510 and $115,031, respectively.

In 2013, Moscow Credit Bank (MCB) provided the Group with a short-term U.S. dollar-denominated loan bearing interest at 8.0% p.a. The outstanding balance as of December 31, 2013 was $105,000.

(i) Pledges

As of December 31, 2013, the syndicated pre-export credit facilities are secured by 1,010,498 common shares of Yakutugol (25% plus 1 of total common shares) and 9,027,306 common shares of SKCC (25% plus 1 of total common shares).

The indebtedness under the credit facilities with Gazprombank is secured by the pledge of 1,010,498 common shares of Yakutugol (25% plus 1 of total common shares), 9,027,306 common shares of SKCC (25% plus 1 of total common shares) and 62,533 common shares of KMP (25% plus 1 of total common shares) as of December 31, 2013.

The indebtedness under the credit facility of $1,230,422 with VTB is secured by the pledge of 3,644,450,001 common shares of Mechel Mining OAO (25% plus 1 of total common shares) as of December 31, 2013.

The indebtedness under the long-term credit facility provided by Sberbank to CMP totaling $458,306 and $493,865 as of December 31, 2013 and 2012, respectively, is secured by the pledge of 1,866,711 common shares of BMP (25% plus 1 share of total common shares) and 3,644,450,001 common shares of Mechel Mining OAO (25% plus 1 share of total common shares).

The indebtedness under the long-term credit facility provided by Fortis to CMP totaling $396,681 and $282,130 as of December 31, 2013 and 2012, respectively, is secured by the pledge of 632,393 common shares of CMP (20% of total

common shares).

The indebtedness under the long-term credit facility of $51,429 provided by UniCredit Bank to MTAG is secured by the pledge of 109,552 common shares of USP (20% of total common shares) and 632,393 common shares of CMP (20% of total common shares) as of December 31, 2013.

The indebtedness under the long-term credit facilities of $796,546 provided by Gazprombank to CMP, Mechel Service, Mechel-Energo, BMP, USP are secured by the pledge of 266,911 common shares of Izhstal (25% plus 1 of total common shares) and 136,942 common shares of USP (25% plus 1 of total common shares) as of December 31, 2013.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The indebtedness under the credit facility provided by Alfa-Bank in August 2013 to CMP totaling $150,000 as of December 31, 2013 is secured by the pledge of 5,210,442 common shares and 8,504 preferred shares of BMP (65% of total shares) and 3,548,999 common shares of Port Posiet (25% minus 1 of total shares).

The indebtedness under the long-term credit facility of $70,937 provided by Uralsib Bank in December 2013 to USP and BMP is secured by the pledge of 27,380 common shares of USP (5% plus 1 of total common shares).

The indebtedness under the credit facility of $33,348 provided by VEB to Elgaugol is secured by the pledge of 75,038 common shares of KMP (30% of total common shares) and 49% of Elgaugol share.

The indebtedness under the long-term loan agreement concluded between the Group and Sberbank for the bonds restructuring and loan refinancing totaling up to 25 billion Russian rubles ($768,431 as of December 31, 2013) as of December 31, 2013 is secured by the pledge of 3,644,450,001 common shares of Mechel Mining OAO (25% plus 1 share of total common shares).

As of December 31, 2013 and 2012, the carrying value of property, plant and equipment pledged under the loan agreements amounted to $935,251 and $1,208,167, respectively. Carrying value of inventories pledged under the loan agreements amounted to $27,165 and $111,723 as of December 31, 2013 and 2012, respectively. Accounts receivable pledged as of December 31, 2013 and 2012 amounted to $11,995 and $17,359, respectively. Cash pledged under the loan agreements amounted to nil and $2,340 as of December 31, 2013 and 2012, respectively.

(j) Covenants

The Group s loan agreements contain a number of covenants and restrictions, which include, but are not limited to, financial ratios, maximum amount of debt, minimum value of shareholders equity and certain cross-default provisions. The covenants also include, among other restrictions, limitations on: (1) indebtedness of certain companies in our group; (2) amount of dividends on our common and preferred shares; and (3) amounts that can be spent for capital expenditures, new investments and acquisitions. Covenant breaches if not waived generally permit lenders to demand accelerated repayment of principal and interest.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Prior to receiving the waivers described below, the Group was required to comply with the following ratios under the most significant loan agreements as of December 31, 2013:

Restrictive covenant	Requirement		Actual as of 31 December, 2013
Mechel s Adjusted Shareholders Equity, as defined in respective loan agreements	Greater than or equal to $4,000,000	$	4,531,868
Mechel s EBITDA to Net Interest Expense	Shall not be less than 1.0:1.0		0.9:1.0
Mechel s Net Borrowings	Not exceed $11,000,000	$	9,162,143
Mechel Mining s Adjusted Shareholders Equity, as defined in respective loan agreements	Greater than or equal to $3,700,000	$	3,968,083
Mechel Mining s EBITDA to Net Interest Expense	Shall not be less than 1.0:1.0		1.8:1.0
Mechel Mining s Net Borrowings	Not exceed $4,300,000	$	3,989,996

As of December 31, 2013, the Group was not in compliance with financial covenants under various loan agreements, but, during April-May 2014, received appropriate consents and covenant amendments from the banks. Specifically, the Group received, after December 31, 2013, consents and covenant amendments relating to the following breaches under the most significant long-term and short-term loan arrangements totaling $2,741,650:

The Group would not have been in compliance with EBITDA to Net Interest Expenses ratio set at a level not less than 1.0:1.0, while the actual EBITDA to Net Interest Expenses ratio was 0.9:1.0.

One of the waivers that the Group received from Sberbank is subject to the fulfilment of certain conditions before June-July 2014. Management believes that it is probable that such conditions will be met.

In addition, Mechel OAO was not in compliance with EBITDA to Net Interest Expenses ratio set by the credit facility agreements signed with Bank of China. Under this agreement, the Group had $12,833 of borrowings repayable within the next twelve months.

The loan agreements set restrictions on the distribution of the Group s earnings for the dividend payments on ordinary and preferred shares if: (i) the Group s ratio of Net Borrowings to EBITDA exceeds or equal to 3.0:1.0; (ii) the amount

of dividends on ordinary shares exceeds 20% of net profit for the year; (iii) the amount of dividends on preferred shares exceeds 20% of net profit for the respective year, and (iv) the amount of dividend on preferred shares exceeds 7,500,000 Russian rubles ($245) in a year when the Group incurs a loss.

In accordance with the Group s projections, the Group has both intent and ability to meet the covenants during and for the period ending December 31, 2014, and net operating cash flows generated by the Group in 2014 will be sufficient to finance capital investments and pay interest on debt in 2014. The Group is negotiating with some of its creditors to refinance and amend the terms and conditions of its existing debt to extend maturities beyond December 31, 2014. Based on negotiations conducted to date, the management believes that it will successfully refinance or restructure its short-term debt. As a result, no reclassification of long-term debt to short-term liabilities due to covenant violations as of December 31, 2013 has been made.

As of May 15, 2014, management has succeeded in obtaining additional financing by reaching the agreements with VTB and MCB (Note 26).

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

14. FAIR VALUE MEASUREMENTS

FASB ASC 820, Fair Value Measurement (ASC 820), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

(a) Assets and liabilities measured at fair value on a recurring basis

The Group has segregated all financial assets and liabilities that are measures at fair value on a recurring basis as of December 31, 2013 and 2012 into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below:

December 31, 2013	Level 1	Level 2	Level 3	Fair Value Measurements
Assets:				
Available-for-sale securities	374			**374**
Total assets	**374**			**374**

Liabilities:				
Contingent liability			(27,718)	**(27,718)**
Swap transaction		(12,466)		**(12,466)**
Option		(12,668)		**(12,668)**
Total liabilities		**(25,134)**	**(27,718)**	**(52,852)**

December 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Fair Value Measurements**
Assets:				
Available-for-sale securities	2,989			**2,989**
Total assets	**2,989**			**2,989**
Liabilities:				
Contingent liability			(25,665)	**(25,665)**
Swap transaction		(14,257)		**(14,257)**
Option		(23,623)		**(23,623)**
Total liabilities		**(37,880)**	**(25,665)**	**(63,545)**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

To determine the fair value of available-for-sale securities quoted market prices in active markets for identical assets were used by the Group and they were considered as Level 1 inputs.

On July 12, 2011, the Group entered into a non-deliverable cross currency 5 billion Russian rubles swap agreement with VTB Bank (Austria). The termination date of the swap is August 28, 2015. The underlying instrument for the swap transaction is a 5 billion Russian rubles bond bearing interest at 10% and maturing on August 25, 2020 (put option date September 1, 2015) issued by Mechel OAO on September 7, 2010. Under the terms of the agreement, VTB Bank pays interest of 10% p.a. at 5 billion Russian rubles notional amount, the Group pays interest of 5.69% p.a. on $176,367 notional amount. Interest is paid on a semi-annual basis with the first payment on March 2, 2012. On the termination date, VTB Bank pays to the Group the notional amount of 5 billion Russian rubles, and the Group pays to VTB Bank the notional amount of $176,367. The business objective of this instrument is to decrease the effective interest rate for a 5 billion Russian rubles bond during the year ending December 31, 2013 via a positive net cash inflow from interest payments under the swap instrument according to the Group s expectations about U.S. dollar and ruble exchange rate fluctuations.

The Group accounts for the above mentioned swap instrument at fair value as a derivative instrument not designated or qualifying as a hedging instrument under ASC 815. For the year ended December 31, 2013, $1,791 gain related to the change in the fair value of this swap instrument was included in the net foreign exchange gain (loss) in the accompanying consolidated statement of operations and comprehensive income (loss) and consolidated statements of cash flows. As of December 31, 2013, the fair value of this swap instrument was recorded in Other long-term liabilities in the amount of $12,466.

The fair value of the Group s swap contract is valued based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes have been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

In October 2012 and March 2013, SKCC entered into cross currency options with Sberbank. The options are contracted in respect of four facilities totaling to 20.9 billion Russian rubles ($638,574 at the exchange rate as of December 31, 2013), falling due on October 6, 2017. The ruble-denominated facilities bear floating interest at a rate of 10.5%-11.5% p.a. The options are designed to convert the ruble notional amount into U.S. dollars at a pre-determined strike exchange rate (6.5 billion Russian rubles at the exchange rate of 31.04 Russian rubles per 1 U.S. dollar, 5.0 billion Russian rubles at the exchange rate of 30.80 Russian rubles per 1 U.S. dollar, 1.5 billion Russian rubles at the exchange rate of 31.00 Russian rubles per 1 U.S. dollar, 7.9 billion rubles at the exchange rate of 30.64 rubles per 1 U.S. dollar) when the barrier exchange rate (indicated at Reuters) achieves 50 Russian rubles per 1 U.S. dollar. Simultaneously, the interest rate is modified into floating 10.0% - 11.0% p.a. After the triggering event, all future payments will be in U.S. dollars. The business objective of this instrument is the decrease in interest rate on the

ruble-denominated facilities based on the Group s expectations about U.S. dollar and ruble exchange rate fluctuations.

The Group accounts for the above mentioned option at fair value as a derivative instrument not designated or qualifying as a hedging instrument under ASC 815. For the year ended December 31, 2013, $21,528 gain related to the change in the fair value of this option was included in the net foreign exchange gain (loss) in the accompanying consolidated statement of operations and comprehensive income (loss). As of December 31, 2013, the fair value of this option was recorded in Other long-term liabilities in the amount of $12,668.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The fair value of the Group s option contract is measured based upon quotes obtained from counterparties to the agreements and is designated as Level 2. Such quotes have been derived using discounted cash flows analysis that incorporates observable market parameters for all significant inputs such as interest yield curves and currency rates.

The contingent liability measured at fair value is represented by the Drilling Program contingent liability with the maturity date of May 7, 2014, which was calculated using estimated tonnage of coal in-place determined by the independent appraiser. The present value of this liability was determined using an 8% discount rate, stated in the agreement for actual settlement of contingent obligation, which represents the estimate of the amount that would have been paid if the Group had settled the liability at the balance sheet date (Note 25(e)).

The Group s model inputs used involve significant management judgment. Such assets and liabilities are typically classified within Level 3 of the fair value hierarchy. The table below sets forth a summary of changes in the fair value of Group s Level 3 financial liability for the years ended December 31, 2013, 2012 and 2011:

	Contingent liability
Balance at beginning of 2011	**(21,999)**
Loss resulting from remeasurement of contingent liability (Note 25)	(1,760)
Transfers in and out of Level 3	
Balance at beginning of 2012	**(23,759)**
Loss resulting from remeasurement of contingent liability (Note 25)	(1,906)
Transfers in and out of Level 3	
Balance at beginning of 2013	**(25,665)**
Loss resulting from remeasurement of contingent liability (Note 25)	(2,053)
Transfers in and out of Level 3	
Balance at end of year	**(27,718)**

(b) Fair value of assets and liabilities not measured at fair value

As of December 31, 2013, the fair value of variable and fixed rate long-term loans (based on future cash flows discounted at current long-term market rates available for corporations) was as follows:

As of December 31, 2013	Estimated fair value	Level 1	Level 2	Carrying value incl. interest accrued
Russian ruble-denominated debt	4,262,088	607,275	3,654,813	4,582,365
U.S. dollar-denominated debt	2,422,450		2,422,450	2,545,557
Euro-denominated debt	402,607		402,607	470,487
Total long-term debt	**7,087,145**	**607,275**	**6,479,870**	**7,598,409**

The fair value of cash and cash equivalents, short-term investments, accounts receivable and accounts payable, short-term borrowings, bank financing, equipment financing contracts and other financial instruments not included in the tables above approximates carrying value.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The Group assessed the maximum amount of loss due to credit risk that would be incurred if the parties that make up a concentration of credit risk failed to perform according to the terms of contracts and consider the probable amount of such loss immaterial for the periods presented in these financial statements.

Assets and liabilities at fair value on nonrecurring basis

The nonrecurring fair value measurements for the calculation of impairment charges were developed using significant unobservable inputs (Level 3). Assumptions used by management were similar to those that would be used by market participants performing valuations of these reporting units and are described in Note 23. Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by the Group during the year ended December 31, 2013, the impairment of long-lived assets of $38,310 for the year ended December 31, 2013 was recognized to reduce the carrying amount of goodwill and the impairment of long-lived assets of $1,036,386 for the year ended December 31, 2013 was recognized to reduce the carrying amount of the assets and liabilities of the discontinued operations to their fair value less costs to sell.

The nonrecurring fair value measurements for the calculation of discontinued operations (fair value less cost to sell) were developed based on the selling prices under the relevant sale and purchase agreements that approximate the fair value. The results are described in Note 3 (c).

15. ASSET RETIREMENT OBLIGATIONS

The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The main part of these obligations is not expected to be paid for many years, and will be funded from general Group resources at the time of removal. The Group s asset retirement obligations primarily relate to its steel and mining production facilities with related landfills and dump areas and its mines.

The following table presents the movements in asset retirement obligations for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Asset retirement obligation at beginning of year	**48,720**	**41,772**	**52,606**
Liabilities incurred in the current year	17,509		
Liabilities disposed in the current year	(677)		

Liabilities settled in the current year	(2,216)	(1,957)	(4,551)
Accretion expense	5,014	4,369	5,897
Revision in estimated cash flow	(5,787)	2,352	(10,779)
Translation difference	(3,427)	2,184	(1,401)
Asset retirement obligation at end of year	**59,136**	**48,720**	**41,772**

Liabilities incurred during the year ended December 31, 2013 are mainly represented by the obligations arising from development of the Elga coal deposit in the amount of $17,509.

Revision in estimated cash flow represented the effect of the changes resulting from the management revisions to the timing and/or the amounts of the original estimates, and is recorded through an increase or

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

decrease in the value of the underlying non-current assets. The effects of revisions in estimated cash flows relate mainly to continuous refinement of future asset removal activities and restoration costs at SKCC, SUNP and Yakutugol during the year ended December 31, 2013, at SKCC and Yakutugol during the year ended December 31, 2012, at Izhstal and Yakutugol during the year ended December 31, 2011 as assessed by the Group with the help of independent environmental engineers.

16. PENSION AND POSTRETIREMENT BENEFITS

In addition to the state pension and social insurance required by the Russian legislation, the Group has a number of defined benefit occupational pension plans that cover the majority of production employees and some other postretirement benefit plans.

A number of the Group s companies provide their former employees with old age retirement pensions. The old age retirement pension is conditional to the member qualifying for the state old age pension. Some employees are also eligible for an early retirement in accordance with the state pension regulations and specific coal industry rules (so-called territorial treaties), which also provide for certain post retirement benefits in addition to old age pensions. Additionally the Group voluntarily provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the occupational pension program.

The Group also provides several types of long-term employee benefits such as death-in-service benefit and invalidity pension of a defined benefit nature. The Group may also provide the former employees with reimbursement of coal and wood used for heating purposes. In addition, one-time lump sum benefits are paid to employees of a number of the Group s companies upon retirement depending on the employment service with the Group and the salary level of an individual employee. All pension plans are unfunded until the qualifying event occurs.

Several entities contribute certain amounts to non-state pension funds (Almaznaya Osen and Mechel Fund), which, together with amounts earned from investing the contributions, are intended to provide pensions to members of pension plans. However, pursuant to agreements between the Group and these non-state pension funds, under certain circumstances, these assets are not effectively restricted from possible withdrawal by the employer. Based on this fact, these assets do not qualify as plan assets under U.S. GAAP and these pension schemes are considered to be fully unfunded.

During 2010, the Group introduced a new corporate plan for the majority of the Russian entities except for Yakutugol. During 2011, the Group also introduced a new corporate plan for Yakutugol. As a result the Group ceased to bear any liabilities to provide either pension or lump sum upon retirement benefits, or both, to the employees who do not

participate in the corporate pension plan. In addition, the Group terminated the provision of the guarantees concerning the amount of the pension provided via a non-state pension fund to those employees who were born after a certain year.

As of December 31, 2013, there were 57,492 active participants under the defined benefit pension plans and 33,513 pensioners receiving monthly pensions or other regular financial support from these plans. As of December 31, 2012, the related figures were 67,597 and 38,116, respectively. The majority of employees at the Group s major subsidiaries belong to the trade unions.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The total number of the BCG Companies employees and their dependents eligible for benefits as of December 31, 2013 was 364 and the total number of retirees and their dependents was 175. As of December 31, 2012, the related figures were 565 and 157, respectively. The majority of employees belong to the United Mine Workers of America (UMWA).

Actuarial valuation of pension and other post employment and postretirement benefits was performed in March 2014, with the measurement date of December 31, 2013. Members census data as of that date was collected for all relevant business units of the Group.

Pension costs determined by the Group are supported by an independent qualified actuary, and are charged to the statements of operations and comprehensive income (loss) ratably over employees working service with the Group.

As of December 31, 2013 and 2012, net projected benefit obligation and other postretirement benefit obligations amounted to $162,112 and $185,986, respectively.

(a) Projected benefit obligation

The movements in the projected benefit obligation (PBO) were as follows during the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Projected benefit obligation at beginning of year	**141,893**	**110,697**	**146,735**
Service cost	3,952	3,682	5,684
Interest cost	8,453	8,475	11,451
Obligations arising from acquisitions and other	510	13,883	137
Benefits paid	(11,750)	(15,716)	(12,582)
Actuarial (gain) loss	(11,355)	13,849	2,416
Plan amendments		3,290	274
Curtailment gain	(5,710)	(2,999)	(38,226)
Translation difference	(7,524)	6,732	(5,192)
Projected benefit obligation at end of year	**118,469**	**141,893**	**110,697**

Plan assets			
Fair value of plan assets at beginning of year	5,411		
Employer contributions	278		
Benefits paid	(1,046)		
Expected return on plan assets	209		
Actuarial gains on plan assets	535		
Plan assets arising from acquisitions		5,411	
Translation difference	203		
Fair value of plan assets at the end of year	**5,590**	**5,411**	
Funded status	**(112,879)**	**(136,482)**	**(110,697)**

F-81

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Upon the acquisition of Cognor on September 25, 2012 (Note 3(a)), the Group recognized additional pension obligation in the amount of $8,472, including projected benefit obligation of $13,883 and plan asset of $5,411.

The curtailment gain of $5,710 was recognized in 2013 due to disposal of Mechel Targoviste S.A., Mechel Campia Turzii S.A., Ductil Steel, Laminorul S.A., TPP Rousse and redundancies at Mechel-Remservice, SUNP and DEMP. The actuarial gain of $11,355 in 2013 was recognized as a result of changes in assumptions, including the increase in discount rates and retirement ages, and the decrease in inflation rate.

The curtailment gain of $2,999 was recognized in 2012 due to the redundancies at Romanian entities, the redundancies and the termination of provision of the financial support to future pensioners at SUNP. The actuarial loss of $13,849 in 2012 was recognized as a result of changes in assumptions, including the decrease in discount rates and the decrease in mortality rates.

The reasons for the reduction in the PBO in 2011 are the change of pension program at Yakutugol and clarification of terms and conditions of benefits provided under the corporate pension plan at Mechel-Remservice. Overall, the impact on the PBO is gain in the amount of $28,342 for Yakutugol and $8,804 for Mechel-Remservice.

In addition, business activities of one of the subsidiaries of SKCC were significantly terminated and the majority of employees were made redundant in 2011. The impact on PBO is $533.

Amounts recognized in the consolidated balance sheets were as follows as of December 31, 2013 and 2012:

	December 31, 2013	**December 31, 2012**
Plan assets, net of current portion		
Pension obligation, current portion	17,608	17,424
Pension obligation, net of current portion	95,271	119,058
Total net pension obligation	**112,879**	**136,482**

The components of net periodic benefit cost were as follows for the years ended December 31, 2013, 2012 and 2011:

	2013	**2012**	**2011**
Service cost	3,952	3,682	5,684
Amortization of prior service cost	1,731	1,922	1,444
Interest cost	8,453	8,475	11,451
Amortization of actuarial gain	(3,334)	(4,301)	(4,522)
Curtailment gain	(6,760)	(1,691)	(38,711)
Expected returns on assets	(209)		
Net periodic benefit cost	**3,833**	**8,087**	**(24,654)**

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The PBO, accumulated benefit obligation, fair value of plan assets and funded status were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Projected benefit obligation	118,469	141,893
Accumulated benefit obligation	95,339	131,482
Fair value of plan assets	5,590	5,411
Funded status	**(112,879)**	**(136,482)**

Amounts recognized in accumulated other comprehensive income (AOCI) were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Net gain	(40,286)	(35,703)
Prior service cost	7,251	9,790
Translation difference	147	(437)
Total amount recognised in AOCI	**(32,888)**	**(26,350)**

The change in the PBO recognized in OCI was as follows for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Additional (gain) loss arising during the year	(11,890)	13,849	2,416
Less re-classified (gain) loss amortization	(4,538)	(3,103)	(4,177)
Additional prior service cost (credit) from plan amendment		3,290	274
Less re-classified prior service cost amortization	1,886	2,032	613

Translation difference	2,700	(161)	84
Net amount recognised in other comprehensive income for the year	**(6,538)**	**18,049**	**6,338**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The key actuarial assumptions used to determine benefit obligations were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Discount rate		
Russian entities	7.90%	7.00%
German entities	3.20%	3.00%
Austrian entities	3.50%	3.75%
Expected return on plan assets		
Austrian entities	3.50%	3.75%
Rate of compensation increase		
Russian entities	6.58%	6.88%
German entities	4.00%	4.00%
Austrian entities	3.50%	3.50%

The key actuarial assumptions used to determine net benefit cost for the years ended December 31, 2013 and 2012:

	2013	2012
Discount rate		
Russian entities	7.00%	8.00%
German entities	3.00%	5.14%
Austrian entities	3.75%	4.75%
Expected return on plan assets		
Austrian entities	3.75%	4.75%
Rate of compensation increase		
Russian entities	6.88%	6.88%
German entities	4.00%	4.00%
Austrian entities	3.50%	3.50%

The results of sensitivity analysis of PBO as of December 31, 2013 are presented below:

	Change in PBO as of December 31, 2013 % from the Base Case PBO
Discount rate of 1% p.a. lower than base case	6.6%
Salary growth of 1% p.a. higher than base case	2.6%
Staff turnover rate plus 3% p.p. for all ages	(7.6%)

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2014:

	2014
Transition obligation (asset)	
Net gain	(2,969)
Prior service cost	1,536
Total amounts expected to be recognized during 2014	**(1,433)**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	2014	**2015**	**2016**	**2017**	**2018**	**2019-2023**	**Total**
Pensions (including monthly financial support)	4,324	4,009	4,089	4,119	4,168	19,616	40,325
Other benefits	13,284	4,901	5,215	5,512	5,468	26,377	60,757
Total expected benefits to be paid	**17,608**	**8,910**	**9,304**	**9,631**	**9,636**	**45,993**	**101,082**

Plan assets

The asset allocation of the investment portfolio was as follows as of December 31, 2013 and 2012:

	December 31, 2013	**December 31, 2012**
Debt instruments	2,882	2,539
Equity instruments	1,517	1,504
Property	212	217
Cash and cash equivalents	582	693
Other assets	397	458

Total plan assets	**5,590**	**5,411**

The investment strategy employed by the Group includes an overall goal to attain a maximum investment return with a strong focus on limiting the amount of risk taken. The strategy is to invest with a medium- to long-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules to avoid concentrations of investments.

The vast majority of plan assets are measured using quoted prices in active markets for identical assets (Level 1 assets).

The investment portfolio is primarily comprised of debt and equity instruments. Real estate and other alternative investments asset can be included when these have favorable return and risk characteristics.

Debt instruments include investment grade and high yield corporate and government bonds with fixed yield and mostly short- to medium maturities.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Equity instruments include selected investments in equity securities listed on active exchange market. The valuation of debt and equity securities is determined using a market approach, and is based on an unadjusted quoted prices.

The expected return on plan assets takes into account historical returns and the weighted average of estimated future long-term returns based on capital market assumptions for each asset category.

(b) Other postretirement benefit obligations

Upon the acquisition by the Group of the BCG Companies on May 7, 2009, the Group recognized the healthcare postretirement benefit obligations. The movements in accumulated postretirement benefit obligation were as follows during the year ended December 31, 2013, 2012and 2011:

	2013	2012	2011
Accumulated postretirement benefit obligation at beginning of year	**49,504**	**44,772**	**40,534**
Service cost	1,131	2,106	1,956
Interest cost	2,172	2,300	2,132
Actuarial (gain) loss	(2,109)	2,516	2,044
Benefits paid	(1,465)	(2,190)	(1,894)
Accumulated postretirement benefit obligation at end of year	**49,233**	**49,504**	**44,772**

Amounts recognized in the consolidated balance sheets were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Postretirement obligation, current portion	1,813	1,731
Postretirement obligation, net of current portion	47,420	47,773
Total postretirement obligation	**49,233**	**49,504**

The components of net periodic benefit cost were as follows for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Service cost	1,131	2,106	1,956
Amortization of net loss	797	670	603
Interest cost	2,172	2,300	2,132
Net periodic benefit cost	**4,100**	**5,076**	**4,691**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

A summary of accumulated postretirement benefit obligation, employer contributions, benefits paid and funded status were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Accumulated postretirement benefit obligation at end of year	49,233	49,504
Employer contributions	1,465	2,190
Benefits paid	(1,465)	(2,190)
Funded status at end of year	(49,233)	(49,504)

Amounts recognized in AOCI were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Net actuarial loss	17,114	20,020

The changes in assets and benefit obligations recognized in other comprehensive income were as follows as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012	December 31, 2011
Net actuarial (loss) gain	(2,109)	2,516	2,044
Amortization of actuatial gain	(797)	(670)	(603)
Total recognized in other comprehensive income	**(2,906)**	**1,846**	**1,441**

Other information used in actuarial valuation as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Market-related value of assets as of beginning of fiscal period		
Amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties		
Alternative amortization methods used		
Prior service cost	N/A	N/A
Unrecognized net (gain) loss	None	None
Employer commitments to make future plan amendments (that serve as the basis for the employer`s accounting for the plan)	None	None

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The key actuarial assumptions used to determine benefit obligations at December 31, 2013 and 2012:

	2013	2012
Discount rate	5.37%	4.48%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Healthcare cost trend rate	8.50%	9.00%
Ultimate rate	5.00%	5.00%
Number of years to reach ultimate rate	6	7

The key actuarial assumptions used to determine net benefit cost for the years ended December 31, 2013 and 2012:

	2013	2012
Discount rate	4.48%	5.20%
Expected return on plan assets	N/A	N/A
Healthcare cost trend assumed for the subsequent year	9.00%	9.50%
Ultimate rate	5.00%	5.00%
Number of years to reach ultimate rate	8	9

The results of sensitivity analysis of postretirement benefit obligations as of December 31, 2013 are presented below:

	Change in postretirement benefit obligations as of December 31, 2013
Annual effect of 1% point increase in healthcare cost trend on:	
Service and interest cost components	797
Accumulated postretirement benefit obligation	9,333
Annual effect of 1% point decrease in healthcare cost trend on:	

Service and interest cost components	(598)
Accumulated postretirement benefit obligation	(7,293)

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2014:

	2014
Transition obligation (asset)	
Net loss	651
Prior service cost (credit)	
Total amounts expected to be recognized during 2014	**651**

F-88

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	2014	2015	2016	2017	2018	2019-2023	Total
Estimated future benefit payments reflecting expected future service	1,813	1,874	1,944	1,984	2,021	10,892	20,528

17. FINANCE LEASES

In 2009-2013, several subsidiaries of the Group entered into agreements with third parties for the lease of transport and production equipment. The leases were classified as finance (capital) leases in accordance with FASB ASC 840, Leases (ASC 840), as they contain a bargain purchase option and the title to the leased equipment transfers to the lessee at the end of the lease term.

As of December 31, 2013 and 2012, the net book value of the leased assets was as follows:

	December 31, 2013	December 31, 2012
Transport equipment and vehicles	592,371	562,092
Operating machinery and equipment	168,779	160,017
Construction in progress	540	13,989
Less: accumulated depreciation	(173,284)	(117,224)
Net value of property, plant and equipment, obtained under capital lease agreements	**588,406**	**618,874**

The carrying amount and maturities of capital lease liabilities as of December 31, 2013 were as follows:

	Total payable	Interest	Net payable
Payable in 2014	174,182	(51,367)	122,815
Payable in 2015	139,489	(34,612)	104,877

Payable in 2016	95,040	(22,313)	72,727
Payable in 2017	76,498	(12,759)	63,739
Payable in 2018	59,640	(4,169)	55,471
Payable thereafter	73	(2)	71
Total capital lease liabilities	**544,922**	**(125,222)**	**419,700**

The discount rate used for the calculation of the present value of minimum lease payments equals the implicit rate for the lessor and varies on different groups of equipment from 7.0% p.a. to 16.4% p.a. (U.S. dollar-denominated contracts), from 7.6% p.a. to 26.4% p.a. (euro-denominated contracts) and from 5.3% p.a. to 26.3% p.a. (ruble-denominated contracts). Interest expense charged to the accompanying Group s statements of operations and comprehensive income (loss) in 2013 and 2012 amounted to $62,730 and $69,388, respectively.

In 2011-2013, the Group signed several finance lease contracts under which leased property was expected to be received in 2014-2019. The total amount of commitments under these lease contracts as of December 31, 2013 is equal to $86,317.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

18. EQUITY

(a) Capital stock

The capital stock of Mechel OAO consists of 497,969,086 authorized common shares with par value of 10 Russian rubles (approximately $0.0003), of which 416,270,745 common shares were outstanding as of December 31, 2013 and 2012.

(b) Preferred shares

On April 30, 2008, Mechel s Extraordinary Shareholders Meeting adopted changes to its Charter, authorizing up to 138,756,915 preferred shares with a nominal value of 10 Russian rubles each for future issuances (representing 25% of the Mechel OAO s share capital). Under the Russian law and the Mechel OAO s Charter, these stocks are non-cumulative and have no voting rights, unless dividends are not paid in the year. The dividend yield is also fixed by the Charter and amounts to 0.2% of Mechel s consolidated net income per 1% of preferred stocks issued.

(c) Dividends

In accordance with applicable legislation, Mechel and its subsidiaries can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the statutory financial statements of both Russian and foreign Group s subsidiaries. Dividends from Russian companies are generally subject to a 9% withholding tax for residents and 15% for non-residents, which could be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

Effective January 1, 2008, intercompany dividends may be subject to a withholding tax of 0% (if at the date of dividends declaration, the dividend-recipient Russian company held a controlling (over 50%) interest in the share capital of the dividend payer for a period over one year, if the cost of acquisition of shares of the company paying dividends exceeded 500 million Russian rubles and the residence of the dividend distribution company is not included into the Ministry of Finance offshore list). Before 2011, dividends received by the Russian entities were subject to a profit tax of 0% only when all the relevant criteria described above were satisfied; otherwise the tax rate was 9%. One of the criteria was that the cost of the acquisition or receipt of ownership of the holding in the charter capital of the organization paying the dividends or depositary receipts conferring the right to receive dividends exceeds 500 million Russian rubles. This criterion was abolished by the Federal Law starting from January 1, 2011 in relation to the dividends accrued on the basis of results of the activities of organizations for 2010 and subsequent periods.

Approximately $6,104,529 and $9,370,410 of statutory undistributed earnings were available for dividends as of December 31, 2013 and 2012, respectively.

On June 20, 2013, one of the Group s subsidiaries declared a dividend of 285,105 thousand Russian rubles ($8,876) to its common shareholders and, on June 28, 2013, Mechel declared 4,163 thousand Russian rubles ($127) to the holders of preferred shares for 2012. In August 2013, the dividends on preferred shares declared for 2012 were paid in full amount.

On June 6, 2012, Mechel declared a dividend of 5,959 million Russian rubles ($180,909) to its shareholders for 2011, out of which $79,056 was subject to the distribution to the holders of preferred shares. During 2012, the dividends declared for 2011 were paid in full amount.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

(d) Earnings per share

Net income (loss) per common share for all periods presented was determined in accordance with FASB ASC 260, Earnings Per Share (ASC 260), by dividing income (loss) available to shareholders by the weighted average number of shares outstanding during the three years ended December 31:

	2013	2012	2011
Net (loss) income from continuing operations	(1,564,396)	(1,059,046)	831,473
Less: Net income from continuing operations attributable to noncontrolling interests	(5,543)	(23,510)	(76,252)
Dividends paid on preferred stock	(127)	(79,056)	(78,281)
Net (loss) income from continuing operations attributable to common shareholders of Mechel OAO	**(1,570,066)**	**(1,161,612)**	**676,940**
Total weighted average number of shares outstanding during the period	**416,270,745**	**416,270,745**	**416,270,745**
(Loss) earnings per share from continuing operations (in U.S. dollars)	**(3.77)**	**(2.79)**	**1.63**

	2013	2012	2011
Net loss from discontinued operations	(1,358,571)	(605,839)	(28,026)
Less: Net loss from discontinued operations attributable to noncontrolling interests	496	23,827	690
Net loss from discontinued operations attributable to common shareholders of Mechel OAO	**(1,358,075)**	**(582,012)**	**(27,336)**
Total weighted average number of shares outstanding during the period	**416,270,745**	**416,270,745**	**416,270,745**
Loss per share effect of discontinued operations (in U.S. dollars)	**(3.26)**	**(1.40)**	**(0.07)**

Net loss (income) attributable to common shareholders of Mechel OAO for the years ended December 31, 2013, 2012 and 2011 has been computed by adding (deducting) the dividends on preferred shares for the years then ended, declared on June 28, 2013, June 30, 2012 and June 30, 2011 in the amount of $127, $79,056 and $78,281, respectively, to (from) net loss (income) attributable to shareholders of Mechel OAO.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The total weighted-average number of common shares outstanding during the period was as follows:

Dates outstanding		Shares outstanding	Fraction of period (days)	Weighted-average number of shares
2011:				
Common shares: January 1	December 31	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period		**416,270,745**		**416,270,745**
2012:				
Common shares: January 1	December 31	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period		**416,270,745**		**416,270,745**
2013:				
Common shares: January 1	December 31	416,270,745	365	416,270,745
Total weighted average shares outstanding during the period		**416,270,745**		**416,270,745**

There were no dilutive securities issued as of December 31, 2013, 2012 and 2011.

(e) Acquisitions of noncontrolling interests

In November 2013, the Group purchased 1.31% of Mechel Mining OAO from the Controlling Shareholder for $57,986 cash consideration. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired of $54,952 was attributed to additional paid-in capital. The acquired shares were pledged under the credit agreement between the seller and Gazprombank as of the date of transaction but the pledge was released by the end of the year. The Group has 99.999995% of voting shares of Mechel Mining as of December 31, 2013.

During the period from August 2013 through November 2013, the Group purchased 4.40% of KMP from non-controlling shareholders for $29,158 cash consideration. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $8,720, was attributed to additional paid-in capital. The indebtedness of the Group under the share purchase agreement was secured by the pledge of 5,726 common shares of KMP (2.3% of total common shares).

In March 2013, the Group purchased 0.21% of Tomusinsk Open Pit Mine (TOPM) from noncontrolling shareholders for $33 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $619, was attributed to additional paid-in capital.

In March 2012, the Group purchased 0.03% of BMP from noncontrolling shareholders for $33 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $21, was attributed to additional paid-in capital.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In October 2012, the Group purchased 1.63% of Izhstal from noncontrolling shareholders for $595 paid in cash. The transaction was accounted for as an equity transaction, and the difference between the fair value of the consideration paid and share of carrying value of net assets acquired, of $160, was attributed to additional paid-in capital.

On different dates from January through December 2011, the Group acquired 0.03% of voting shares of Tomusinsky Open Pit and 0.02% of voting shares of SKCC from third parties for $4 and for $283, respectively, paid in cash. The transactions were accounted for as equity transactions.

19. INCOME TAXES

(Loss) income from continuing operations, before income tax and discontinued operations attributable to different jurisdictions was as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Russia	(608,551)	(617,919)	1,419,818
Switzerland	(583,963)	2,394	(57,874)
British Virgin Islands	38,129	16,808	5,467
Romania	(87,006)	(340,988)	(161,294)
Lithuania	1,048	(10,832)	(1,542)
Kazakhstan	(4,524)	(13,107)	10,558
USA	(101,977)	(114,985)	36,397
Other	(163,910)	212,428	(53,845)
Total	**(1,510,754)**	**(866,201)**	**1,197,685**

	Years ended December 31,		
	2013	**2012**	**2011**
Current income tax expense (benefit)			
Russia	106,032	238,207	320,700
Switzerland	312	(4,369)	8,919

Romania		(94)	1,153
Lithuania			
Kazakhstan			700
USA	(527)	8	31
Other	3,061	6,812	15,355
	108,878	240,564	346,858
Deferred income tax expense (benefit)			
Russia	4,120	16,193	18,414
Switzerland	(2,187)	1,434	(999)
Romania		(14,450)	(592)
Lithuania	6	(116)	234
Kazakhstan	195	327	294
USA	(54,430)	(54,773)	2,052
Other	(2,940)	3,666	(49)
	(55,236)	(47,719)	19,354
Total income tax expense	**53,642**	**192,845**	**366,212**

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

In January 2013, the Group created the consolidated group of taxpayers in accordance with additions to part one of the Tax code of the Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ. As of January 1, 2013, the consolidated group of taxpayers consisted of 16 subsidiaries of the Group, together with Mechel OAO, which is the responsible taxpayer under the agreement. As of January 1, 2014, the number of subsidiaries included in the consolidated group of taxpayers increased to 20 participants.

For subsidiaries which are not included in the consolidated group of taxpayers, income taxes are calculated on an individual subsidiary basis. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Group in accordance with ASC 740.

Taxes represent the Group s provision for profit tax. During 2011-2013, income tax was calculated at 20% of taxable profit in Russia, at 10.8% in Switzerland, at 16% in Romania, at 15% in Lithuania, at 20% in Kazakhstan. The Group s subsidiaries incorporated in Liechtenstein and British Virgin Islands are exempt from profit tax. In June 2011, new amendments in the tax legislation of the U.S. resulted in the decrease in tax rate to 39.55% in 2013, 40.0% in 2012 from 40.5% in 2009-2011. Amendments in the tax legislation of the United Kingdom resulted in the decrease in tax rate from 24% in 2010-2012 to 23% since 1 April 2013 and to 21% since 1 April 2014. In December 2010 the tax legislation of Ukraine was amended to decrease the statutory income tax rate gradually from 25% in 2010 to 23% from April 1, 2011, 21% from January 1, 2012, 19% from January 1, 2013 and 16% from January 1, 2014 and thereafter.

The changes in income tax rates are effective from January 1 in each of the respective years. For the years ended December 31, 2013, 2012 and 2011, the effect of these changes in the total amount of $5,125, $7,976 and $6,569 respectively, was recognized as a decrease in the income tax expense in the Group s statement of operations and comprehensive income (loss).

The reconciliation between the income tax (benefit) expense computed by applying the Russian enacted statutory tax rates to the income from continuing operations before tax and non-controlling interest, to the income tax expense reported in the financial statements is as follows:

	Years ended December 31,		
	2013	**2012**	**2011**
Theoretical income tax (benefit) expense computed on income before taxes at Russian statutory rate (20%)	(302,151)	(173,240)	239,537
Effects of other jurisdictions and permanent differences:			

Non-deductible expenses and non-taxable income, net	135,599	240,708	11,905
Social expenditures	4,629	3,822	9,331
Change in valuation allowance	185,675	123,758	71,928
Change in unrecognized tax benefits under ASC 740	61,230	17,598	(2,285)
Different tax rates in foreign jurisdictions	(20,448)	(15,370)	8,324
Fines and penalties related to taxes	631	5,988	2,122
Change in tax rate and tax legislation	(5,125)	(7,976)	(4,135)
Effect from intragroup transactions			28,002
Effect from disposal of subsidiaries	16,874		
Other permanent differences	(23,272)	(2,443)	1,483
Income tax expense, as reported	**53,642**	**192,845**	**366,212**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse.

The amounts reported in the accompanying consolidated financial statements consisted of the following:

	December 31, 2013	December 31, 2012
Deferred tax assets, current:		
Inventory	8,163	13,791
Net operating loss carry-forwards	3,252	61,170
Bad debt allowance	11,083	6,416
Timing difference in cost recognition	29,202	20,698
Accrued liabilities	11,803	10,004
Vacation provision	2,269	2,512
Other	5,973	5,859
Total deferred tax asset, current	71,745	120,450
Valuation allowance for deferred tax assets, current	(4,444)	(62,254)
Total deferred tax asset net of valuation allowance, current	67,301	58,196
Deferred tax assets, non-current:		
Net operating loss carry-forwards	829,809	621,694
Asset retirement obligation	4,773	8,212
Property, plant and equipment	29,112	62,221
Pension obligations	19,317	19,579
Other	5,164	3,667
Total deferred tax assets, non-current	888,175	715,373
Valuation allowance for deferred tax assets, non-current	(598,998)	(484,144)
Total deferred tax asset net of valuation allowance, non-current	289,177	231,229

Total deferred tax asset, net	**356,478**	**289,425**

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

	December 31, 2013	December 31, 2012
Deferred tax liabilities, current:		
Timing difference in revenue recognition	2,146	5,399
Timing difference in cost recognition	4,995	6,941
Inventories	43,646	37,518
Bad debt allowance	6,621	9,258
Other	12,696	9,312
Total deferred tax liabilities, current	70,104	68,428
Deferred tax liabilities, non-current:		
Property, plant and equipment	404,248	406,445
Mineral licenses	929,139	969,278
Timing difference in cost recognition	3,057	825
Other	30,486	18,546
Total deferred tax liabilities, non-current	1,366,930	1,395,094
Total deferred tax liability	**1,437,034**	**1,463,522**

A deferred tax liability of approximately $2,868 and $3,667 as of December 31, 2013 and, 2012, respectively, has not been recognized for temporary differences related to the Group s investment in foreign subsidiaries primarily as a result of unremitted earnings of consolidated subsidiaries, as it is the Group s intention, generally, to reinvest such earnings permanently.

Similarly, a deferred tax liability of $51,369 and $74,410 as of December 31, 2013 and 2012, respectively, has not been recognized for temporary difference related to unremitted earnings of consolidated domestic subsidiaries as management believes the Group has both the ability and intention to effect a tax-free reorganization or merger of major subsidiaries into Mechel.

For financial reporting purposes, a valuation allowance is recognized to reflect management s estimate for realization of the deferred tax assets. Valuation allowances are provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on expectations of future taxable income and reversals of the various taxable temporary differences. Deferred tax assets on net operating loss carry

forwards which are considered to be realized in the future, are mostly related to the Russian and U.S. jurisdictions. For the Russian and U.S. income tax purposes, certain subsidiaries of the Group have accumulated tax losses incurred primarily in 2009-2011 and 2013, which may be carried forward for use against their future income within 10 years in the full amounts.

As of December 31, 2013 and 2012, deferred tax assets on net operating loss carry forwards for statutory income tax purposes amounted to $833,061 and $682,864, respectively. As management concluded that the utilization of a substantial portion of such losses is not probable, the valuation allowances in the amount of $579,128 and $499,986 were recorded against net operating loss carry forwards by the Group as of December 31, 2013 and 2012, respectively.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Unrecognized tax benefits

Unrecognized income tax benefits of $78,332, including interest and penalties of $13,789, as of December 31, 2013 and $20,202, including interest and penalties of $3,499, as of December 31, 2012 were recorded by the Group in the accompanying consolidated balance sheets.

The reconciliation of the beginning and ending amount of unrecognized income tax benefits, net of interest and penalties, is as follows:

	2013	2012
Unrecognized income tax benefits at the beginning of year	**16,703**	**1,752**
Increases as a result of tax positions taken during a prior period	52,567	
Increases as a result of tax positions taken during the current period		14,537
Decreases as a result of tax positions taken during the current period	(1,806)	
Translation difference	(2,921)	414
Unrecognized income tax benefits at the end of year	**64,543**	**16,703**

All unrecognized income tax benefits, if recognized, would affect the effective tax rate. Interest and penalties recognized in accordance with ASC 740 are classified in the financial statements as income taxes. The Group recognized interest and penalties of $10,468 and $3,061 for the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013, the tax years ended December 31, 2011-2013 remained subject to examination by Russian tax authorities. As of December 31, 2013, the tax years ended December 31, 2008-2013 remained subject to examination by Swiss, Liechtenstein, Belgium and the U.S. tax authorities. In some companies certain periods were reviewed by the tax authorities and based on the history the Group believes that probability of the repetitive review is less than 10%. Based on the underlying purchase agreement, any tax risks, which may be identified by the U.S. tax authorities for the period before the date of acquisition of the BCG Companies, will be imposed to the Seller of the BCG Companies.

Although the Group believes it is more likely than not that all recognized income tax benefits would be sustained upon examination, the Group has recognized some income tax benefits that have a reasonable possibility of successfully being challenged by the tax authorities.

On January 9, 2014, the Group failed to sustain its position in the court with respect to the income tax claims in the amount of 3.6 billion rubles ($118,120), including penalties and fines. The Group does not intend to appeal the decision. Income tax benefits in respect of this position were recognized in the consolidated financial statements of the Group as of December 31, 2013.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

20. TAXES OTHER THAN INCOME TAX

Taxes other than income tax included in the consolidated statements of operations are comprised of the following:

	Years ended December 31,		
	2013	**2012**	**2011**
Property and land tax	115,922	97,080	96,064
VAT	(1,937)	1,972	1,378
Fines and penalties related to taxes	3,312	125	(257)
Other taxes and penalties	11,362	19,496	(2,576)
Total taxes other than income tax	**128,659**	**118,673**	**94,609**

Property and land tax includes accruals for land tax, which amounted to $19,238, $30,649 and $38,649 for the years ended December 31, 2013, 2012 and 2011, respectively. This tax is levied on the land beneath the Group s production subsidiaries that is occupied based on the right of ownership.

Property and land tax also includes expenses for the operating lease of land, which ranges between 1 and 49 years. These land lease expenses amounted to $48,042, $36,457 and $18,804 for the years ended December 31, 2013, 2012 and 2011, respectively. The table below presents future land rental payments for the next five years under non-cancelable operating lease agreements based on the current rental rates:

Year of payment	Operating lease payments
2014	49,525
2015	46,758
2016	45,765
2017	45,306
2018	45,193

Included in other taxes and penalties related to taxes are:

$4,831, $2,785 and $nil relating to fees for the environmental restoration and air contaminant emission for the years ended December 31, 2013, 2012 and 2011, respectively;

$12,614 income relating to reversal of franchise tax for the year ended December 31, 2012; and

$5,137 and $21,429 income relating to recalculation of mining taxes that belong to previous financial years for the years ended December 31, 2012 and 2011, respectively.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

21. GENERAL, ADMINISTRATIVE AND OTHER OPERATING EXPENSES

General, administrative and other operating expenses are comprised of the following:

	Years ended December 31,		
	2013	**2012**	**2011**
Personnel and social contributions	271,591	306,169	313,118
Office expenses	43,666	44,581	53,208
Depreciation	27,717	21,862	21,599
Consumables	23,054	16,980	22,278
Audit and consulting services	22,941	27,537	28,856
Banking charges and services	17,109	17,107	16,428
Social expenses	16,090	20,773	44,490
Fines, penalties	13,619	4,409	4,609
Rent	11,446	10,258	12,276
Business trips	6,109	7,633	10,409
Mitigation of accidents consequences	5,504	4,388	17,786
Insurance	4,700	7,180	7,878
Disposals of property, plant and equipment	4,711	(5,311)	(7,057)
Settlement of litigation		16,608	
Contributions to Mechel Fund			8,201
Obligation for stream mitigration			8,364
Other	35,578	34,589	20,801
Total general, administrative and other operating expenses	**503,835**	**534,763**	**583,244**

Contributions to Mechel Fund included founder contributions to the pension fund made by a number of the Group s entities in the total amount of $8,201 during the year ended December 31, 2011, which based on the management s interpretation of the Russian legislation do not meet the definition of an asset.

Obligation for stream mitigation in the total amount of $8,364 during the year ended December 31, 2011, represents the cost of removal of the negative environmental impact of the BCG Companies mining operations according to Compensatory Mitigation Plans submitted to the U.S. Army Corps of Engineers.

Settlement of litigation in the total amount of $16,608 during the year ended December 31, 2012, represents an accrual for a lawsuit settlement between Suncoke and the BCG Companies for failure of performance of its obligations under contracts to supply coal to Suncoke in 2008.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

22. OTHER INCOME (EXPENSES), NET

Other income (expenses), net is comprised of the following:

	Years ended December 31,		
	2013	**2012**	**2011**
Loss on disposal of subsidiaries	(76,814)		
(Loss) gain resulting from remeasurement of contingent liability	(2,053)	(1,906)	(1,760)
Loss on currency operations	(2,029)	(4,643)	(4,454)
Gain on forgiveness of fines and penalties	2,550	2,777	47
Gain on accounts payable with expired legal term	1,737	3,158	5,338
Dividends received	285	25,981	28
Gain (loss) on sale of investments	(855)	2,166	(6)
Other taxes			(6,081)
Other income (expenses), net	(8,669)	1,899	2,507
Total other income (expenses), net	**(85,848)**	**29,432**	**(4,381)**

During the period from February 15, 2013 through February 18, 2013, the Group disposed of 86.6% interest in Mechel Targoviste S.A., 86.6% interest in Mechel Campia Turzii S.A., 100% interest in Ductil Steel and 90.9% interest in Laminorul S.A. for a nominal consideration of 230 Romanian lei ($0.1 as of the date of agreement) paid in cash. The disposal is consistent with the Group s strategy aimed at development of its core business. All the disposed companies related to the Steel segment.

There were no significant write-downs of the carrying value of net assets to the fair value less cost to sell. The fair value of Group s net receivables from the disposed companies as of the disposal date is $nil. Net loss on disposal of Romanian assets amounted to $79,997. Gain on accounts payable with expired legal term constitutes gain on the write-off of payable amounts that were written-off due to legal liquidation of the creditors or expiration of the statute of limitation.

During the years ended December 31, 2013, 2012 and 2011, the Group received dividends from cost investments of $285, $25,981 and $28, respectively.

23. IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

As of December 31, 2013, the Group performed an impairment analysis of goodwill at all reporting units where events occur that could potentially lead to the impairment. The Group considers the relationship between market capitalization and its book value, among other factors, when reviewing for indicators of impairment. In addition, the Group s long-lived assets were tested for recoverability at those reporting units, where events or changes in circumstances indicate that their carrying amounts may not be recoverable. Cash flow forecasts used in the test were based on the assumptions as of December 31, 2013.

The forecasted period for non-mining subsidiaries of the Group was assumed to be five years to reach stabilized cash flows, and the value beyond the forecasted period was based on the terminal growth rate of 2.5%. For mining subsidiaries of the Group the forecasted period was based on the remaining life of the mines. Cash flows projections were prepared using assumptions that comparable market participants would use.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Forecasted inflation rates for the period 2014-2018 that were used in cash flow projections were as follows:

Region	2014	2015	2016	2017	2018
Russia	5%	5%	4%	4%	4%
USA	2%	2%	2%	2%	2%
European countries	3%	4%	4%	3%	3%

Discount rates used in the impairment test for goodwill were estimated in nominal terms on the weighted average cost of capital basis. These rates, estimated for each year for the forecasted period, are as follows:

	2014	2015	2016	2017	2018
Discount rate	10.49%	11.49%	12.00%	11.93%	11.19%

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill performed by the Group during the year ended December 31, 2013, the impairment of $38,310 for the year ended December 31, 2013 was recognized to reduce the carrying amount of goodwill. The expected revenue growth was lower than the assumptions made at the acquisition of these reporting units. Impairment losses of continuing operations are recognized and presented in the consolidated statements of operations and comprehensive income (loss) in Impairment of goodwill and long-lived assets line.

According to the results of the impairment analysis of goodwill, an impairment loss for the year ended December 31, 2013 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2013
Kuzbass Power Sales Company (KPSC)	Power	28,144
Ekos-plus.	Mining	4,069
WNL Staal	Steel	2,263
Ramateks	Steel	2,248

Mechel Transport	Mining	1,586
Total		**38,310**

The material assumptions that drive fair values of KPSC lower than carrying values are represented by projected electricity prices, sales volumes, steam coal prices and discount rates. Some of these assumptions materially deviate from the Group s historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where KPSC is located.

Additionally, as a result of the fall in prices for commodities, the extension of the European market weakness and lack of positive prospects for the recovery of the European market, the Group recognized impairment of goodwill in relation to its Steel segment (WNL Staal and Ramateks) and Mining segment (Ekos-plus and Mechel Transport).

The remaining carrying value of the goodwill for KPSC where the Group recorded a goodwill impairment as of December 31, 2013 was $31,352. The remaining carrying value of goodwill for Ekos-plus, WNL Staal, Ramateks and Mechel Transport was nil.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

As of December 31, 2013, the number of reporting units where the Group tested long-lived assets for recoverability was 17. The Group tested long-lived assets for impairment at each reporting unit where the potential amount of such impairment could be material. No long-lived assets impairment was recognized as a result of recoverability testing.

According to the results of the impairment analysis of goodwill as of December 31, 2013, the following reporting units with goodwill allocated for testing purposes have the estimated fair values that are not substantially in excess of their carrying values and goodwill for such reporting units, if impaired, could materially impact the Group s results:

Reporting unit	Segment	The excess of fair value over carrying value	Goodwill allocated to the reporting unit
Yakutugol	Mining	17%	408,915
BFP	Ferroalloy	29%	89,521
Port Posiet	Mining	17%	23,109

In order to determine a reporting unit which had a fair value that was not substantially in excess of its carrying value the Group compared the carrying value of each reporting unit to its fair value based on the discounted cash flows expected to be generated by this reporting unit. As of December 31, 2013, three Group s reporting units Yakutugol, BFP and Port Posiet had 17%, 29% and 17% excess of fair value over their carrying values, respectively, while others had the excess of 33% and more.

The material assumptions that drive the estimated fair values of Yakutugol, BFP and Port Posiet are represented by projected prices, sales volumes, discount rates. Some of these assumptions materially deviate from the Group s historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where Yakutugol, BFP and Port Posiet are located. All these material assumptions are based on the Group s projections and are subject to risk and uncertainty.

Based on the sensitivity analysis carried out as of December 31, 2013, the following minimum changes in key assumptions used in the goodwill impairment test would trigger the impairment of goodwill at some reporting units (the actual impairment loss that the Group would need to recognize under these hypotheses would depend on the appraisal of the fair values of the reporting unit s assets, which has not been conducted):

	Yakutugol	BFP	Port Posiet
Decrease in future planned revenues	5.8%	4.2%	4.9%
Points increase in discount rates for each year with the forcasted period	3.1%	2.3%	1.3%
Points decrease in cash flows growth rate after the forecasted period		4.0%	2.0%

The Group believes that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

According to the results of the impairment analysis of goodwill, an impairment loss of $156,447 for the year ended December 31, 2012 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2012
Ductil Steel S.A.	Steel	92,398
Cognor	Steel	62,118
Nemunas	Steel	1,931
Total		**156,447**

The remaining carrying value of goodwill of these reporting units was nil.

According to the results of the impairment analysis of long-lived assets, an impairment loss of $245,908 for the year ended December 31, 2012 was recognized in the following reporting units:

Reporting unit	Segment	Impairment loss as for the year ended December 31, 2012
Ductil Steel S.A.	Steel	115,181
Mechel Targoviste S.A.	Steel	48,806
Kazakhstansky Nickel Mining Company	Ferroalloy	23,864
Laminorul S.A.	Steel	29,933
Mechel Campia Turzii S.A.	Steel	19,727
Nemunas	Steel	8,397
Total		**245,908**

The remaining carrying value of the long-lived assets of these reporting units was nil.

According to the results of the impairment analysis of goodwill as of December 31, 2012, the following reporting units had the estimated fair values that are not substantially in excess of their carrying values and goodwill for such reporting units, if impaired, could materially impact the Group s results:

Reporting unit	**Segment**	**The excess of fair value over carrying value**	**Goodwill allocated to the reporting unit**
Kuzbass Power Sales Company (KPSC)	Power	2%	64,112

The material assumptions that drove the estimated fair values of KPSC were represented by projected electricity prices, sales volumes, steam coal prices, discount rates. Some of these assumptions materially deviated from the Group s historical results primarily due to the market downturns and economic slowdowns in the recent years in Russia, where KPSC are located. All these material assumptions were based on the Group s projections and subject to risk and uncertainty.

The material assumptions that drive cash flows the Group uses in the impairment analysis are mainly represented by production and sales volumes, sales prices, operating costs, useful life of the long-lived assets

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

and, for goodwill impairment analysis, the Group also estimates the discount rate. All these material assumptions are based on the Group s projections and are subject to risk and uncertainty. Changes in these material assumptions could result in lower than expected cash flows that may trigger the impairment of goodwill and long-lived assets.

The Group believes that the values assigned to key assumptions and estimates represent the most realistic assessment of future trends.

24. SEGMENT INFORMATION

The Group has four reportable business segments: Steel, Mining, Ferroalloy and Power. These segments are combinations of subsidiaries and have separate management teams and offer different products and services. The above four segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and by which they are managed.

The Group s management evaluates performance of the segments based on segment revenues, gross margin and operating income (loss).

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Segmental information for 2013, 2012 and 2011 is as follows:

					2012				
e	Eliminations*****	Total	Mining	Steel	Ferroalloy	Power	Eliminations*****	Total	Mining
569		8,576,431	3,383,786	6,421,540	68,367	757,239		10,630,932	4,333,381
638		1,239,412	627,836	263,739	38,458	428,538		1,358,571	853,031
783	(2,949)	2,613,687	1,883,350	1,041,224	29,368	305,943	47,580	3,307,465	2,821,036
25.7%		30.5%	46.9%	15.6%	27.5%	25.8%		31.1%	54.4%
510		476,960	317,615	140,973	6,214	10,663		475,465	329,327
		17,829	7,289	2,163	590	6		10,048	8,225
143		38,310		378,462	23,893			402,355	
786		714,181	22,668	896,445				919,113	
644)	(2,949)	(529,101)	644,883	(1,119,886)	(26,618)	31,312	47,580	(422,729)	1,645,602
		3,589	475					475	304
64		7,339	50,599	19,777	44	36		70,456	8,864
		58,459	47,875	2,112				49,987	120,503

953	742,042	281,987	338,616	13,479	18,583	652,665	311,913
558	58,459	190	42,121	1,887	5,789	49,987	197
092)	(1,358,571)		(258,740)	(186,061)	(161,038)	(605,839)	1,609
323	13,834,510	9,680,652	5,649,965	1,880,848	483,838	17,695,303	10,137,389
	147,521		425,695	1,625,979	59,223	2,110,897	
	7,604	7,475	378			7,853	8,150
310	687,763	478,636	16,460	96,471	191,248	782,815	451,620
216	558,102	612,226	334,432	5,940	9,744	962,342	1,209,742
907	53,642	153,926	30,827	5,517	2,575	192,845	302,036

* *Gross margin percentage is calculated as a function of total revenues for the segment, including both from external customers and intersegment.*

** *Interest expense incurred by the production subsidiaries is included in the corresponding segment. Directly attributed interest expense incurred by the servicing subsidiaries (trading houses and corporate) is included in the appropriate segment based on the nature and purpose of the debt, while the interest expense related to general financing of the Group is allocated to segments proportionate to respective segment revenues.*

*** *Net of effects of intersegment eliminations.*

**** *Included in total segment assets.*

***** *Eliminations represent adjustments for the elimination of intersegment unrealized profit (loss).*

The amount of electricity transmission costs, included in the selling and distribution expenses of power segment, for 2013, 2012 and 2011 is $221,247, $221,511 and, $226,056, respectively.

F-105

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

The following table presents the Group s revenues segregated between domestic and export sales. Domestic represents sales by a subsidiary in the country in which it is located. This category is further divided between subsidiaries located in Russia and other countries. Export represents cross-border sales by a subsidiary regardless of its location.

	2013	2012	2011
Domestic:			
Russia	4,795,325	5,567,668	5,800,606
Other	898,513	1,227,186	1,448,989
Total	5,693,838	6,794,854	7,249,595
Export	2,882,593	3,836,078	5,037,732
Total revenue, net	**8,576,431**	**10,630,932**	**12,287,327**

Allocation of total revenue by country is based on the location of the customer. The Group s total revenue from external customers by geographic area for the last three fiscal years was as follows:

	2013	2012	2011
Russia	4,797,013	5,572,602	5,809,146
Europe	1,267,840	1,722,088	2,396,075
Asia	1,496,352	1,642,469	1,531,641
CIS	644,682	941,365	1,047,468
Middle East	227,783	526,156	912,704
USA	55,091	74,531	214,539
Other regions	87,670	151,721	375,754
Total	**8,576,431**	**10,630,932**	**12,287,327**

The majority of the Group s long-lived assets are located in Russia and the US. The carrying amounts of long-lived assets pertaining to the Group s major operations located outside Russia as of December 31, 2013 and 2012 were as follows:

	2013	2012
USA	2,126,541	2,188,341
CIS	477	579
Romania	10,456	7,230
Bulgaria	57	94
Germany	38,638	39,908
Lithuania	6	7
Turkey	4,221	5,680
Switzerland/Liechtenstein	186	259
Chezh Republic	5,739	17,956
Austria	25,373	25,928
Other	4,187	7,966

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Because of the significant number of customers, there are no individual external customers that generate sales greater than 10% of the Group s consolidated total revenue.

The following table presents the breakdown the Group s revenues from external customers by major products:

	December 31, 2013	December 31, 2012	December 31, 2011
Mining segment:			
Coal and middlings	2,030,582	2,428,017	3,266,565
Iron ore concentrate	411,903	444,672	370,086
Coke and chemical products	283,199	440,621	601,007
Other	58,415	70,476	95,723
Total	**2,784,099**	**3,383,786**	**4,333,381**
Power segment:			
Electricity	673,053	671,283	580,730
Other	81,516	85,956	156,944
Total	**754,569**	**757,239**	**737,674**
Steel segment:			
Long steel products	2,428,741	2,778,700	3,069,146
Semi-finished steel products	369,716	897,226	1,281,720
Hardware	760,085	889,080	944,269
Flat steel products	524,230	636,129	739,468
Forgings and stampings	406,440	442,585	469,291
Steel pipes	182,432	261,040	240,589
Other	284,571	516,780	383,910
Total	**4,956,215**	**6,421,540**	**7,128,393**
Ferroalloy segment:			
Ferrosilicon	77,039	65,591	84,740

Other	4,509	2,776	3,139
Total	**81,548**	**68,367**	**87,879**
Total revenue	**8,576,431**	**10,630,932**	**12,287,327**

25. COMMITMENTS AND CONTINGENCIES

Commitments

In the course of carrying out its operations and other activities, the Group and its subsidiaries enter into various agreements, which would require the Group to invest in or provide financing to specific projects or undertakings. In management s opinion, these commitments are entered into under standard terms, which are representative of each specific project s potential and should not result in an unreasonable loss.

As of December 31, 2013, the total Group s contractual commitments to acquire property, plant and equipment amounted to $690,435.

Table of Contents

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

Included in the commitments related to acquisition of property, plant and equipment are amounts arising from various purchase agreements in respect of railway construction for the Elga project. The total amount of remaining commitments under the construction contracts as of December 31, 2013 is equal to $532,609. In addition to the contractual commitments to acquire property, plant and equipment, commitments under the lease contracts are disclosed in Note 17.

The BCG Companies utilize coal preparation and loading facilities on their property that are owned and operated by third parties. The agreements covering the BCG Companies use of these facilities expire in 2016 and require minimum payment amounts should the BCG Companies fail to achieve defined throughput levels. These minimum amounts total $3,960 annually for the period from December 31, 2013 to December 31, 2016 and $2,640 in the aggregate for the period thereafter.

Contingencies

(a) Guarantees

As of December 31, 2013, the Group guaranteed the fulfillment of obligations to third parties for the total amount of $3,027. Most of these guarantees are given by the Group under the bank guarantee agreement in favour of the tax authorities to pay tax arrears with penalties if the taxpayer has recovered VAT.

(b) Environmental

In the course of the Group s operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. The BCG 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, which could impose additional costs to the Group. The U.S. regulatory agencies have the authority to temporarily or permanently close the BCG Companies mines or modify their operations because the operations of the BCG Companies may impact the environment or cause or contribute to contamination or exposure to hazardous substances, which could result in environmental liabilities and limit the Group s ability to produce and sell coal in the United States. Management does not believe that any pending environmental claims or proceedings will have a material adverse effect on its financial position and results of operations.

The Group estimated the total amount of capital investments to address environmental concerns at its various subsidiaries at $36,283 as of December 31, 2013. These amounts are not accrued in the consolidated financial statements until actual capital investments are made.

Possible liabilities, which were identified by management as those that can be subject to potential claims from environmental authorities are not accrued in the consolidated financial statements. The amount of such liabilities was not significant.

(c) Taxation

The Group is subject to taxation to the largest extent in Russia, and secondarily in other jurisdictions. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

frequently. Management s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In Russia, generally tax declarations remain open and subject to inspection for a period of three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

In other tax jurisdictions where the Group conducts operations or holds shares, taxes are generally charged on the income arising in that jurisdiction. In some jurisdictions agreements to avoid double taxation are signed between different jurisdictions; however, the risk of additional taxation exists, especially in respect of certain domiciles where some of the Group entities are located and which are considered to be tax havens.

The new Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all controlled transactions if the transaction price differs from the market level of prices. The list of controlled transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds 2 billion Russian rubles in 2013. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the controlled transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the controlled transactions, and that there has been proper reporting to the Russian tax authorities, supported by

appropriate available transfer pricing documentation.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. In accordance with FASB ASC 450, Contingencies (ASC 450), the Group accrued $16,755 and $39,274 of other tax claims that management believes are probable, as of December 31, 2013 and 2012, respectively. In addition, income tax accrual was made under ASC 740 (Note 19).

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

As of December 31, 2013, the Group does not believe that any other material tax matters exist relating to the Group, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be materially misstated or misleading.

Possible liabilities, which were identified by management as those that can be subject to different interpretations of the tax law and regulations are not accrued in the consolidated financial statements. The amount of such liabilities was approximately $33,000.

(d) Litigation, claims and assessments

The Group is subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes and other claims and actions arising out of the normal course of business. In the cases related to the U.S. subsidiaries, insurance or other indemnification protection is generally available to the Group from the previous owners, which should offset the financial impact on the Group, if any. Therefore, management s current estimates related to these pending claims, individually and in the aggregate, are immaterial to the financial position, results of operations or cash flows of the Group. If the Group is unable to recover the losses from the previous owners, it is reasonably possible that the ultimate liabilities with respect to these lawsuits and claims may be material to the financial position, results of operations or cash flows of the Group.

In 2008, Pinnacle Mining Company (Pinnacle) filed a suit against the Group s U.S. subsidiary and a third party engineering firm in the U.S. District Court for the Southern District of Beckley, West Virginia. Pinnacle asserts claims against defendants for negligence, strict liability, violation of the Federal Surface Mining Control and Reclamation Act, and injunctive relief. The case arises from mining activity by the Group s subsidiary in the safety zone of a coal slurry impoundment maintained by Pinnacle. The parties filed a joint motion to stay, and the court granted the stay, which has allowed additional time for the regulatory agencies involved to determine what steps are necessary for remediation. A plan has been submitted by the defendants and was approved by the West Virginia Department of Environmental Protection (WVDEP). The Group completed an installation of pumps to dewater the mine in accordance with the plan. At present, the Group has an unresolved issue regarding Pinnacle s access to the underground part of the mine. The Group is defending the matter and anticipates settlement of this matter between $500 and $1,000.

The Group does not expect to suffer any losses resulting from this lawsuit that related to event prior to the Group s acquisition of the BCG Companies as it has full indemnity from the BCG Companies previous owners in accordance with the terms of the acquisition agreement.

(e) Drilling Program

On acquisition of the BCG Companies, the purchase price included contingent payment, which depends on the results of additional geological researches of the reserves of the BCG companies (Drilling program). Organization and completion of the Drilling Program by independent experts was the sellers responsibility, and was supposed to be fulfilled until July, 2011. Each tonne of the additional coal reserves and resources will be remitted to the sellers at $3.04 per tonne if the payment occurs on May 7, 2014, and will be discounted in case of earlier repayment. In September 2011, the Group received a letter prepared by independent engineering company. The letter appears to state that approximately 54.8 million tonnes of additional coal resources ($3.04 per tonne) were identified pursuant to the Drilling Program. The Group believes that the content of the letter does

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

(All amounts are in thousands of U.S. dollars, unless stated otherwise)

not support its conclusions. The Group did not receive a certified Contingent Reserves report from the sellers that complies with the JORC Code requirements and other requirements set forth in the merger agreement, but rather a letter with some findings which are unsubstantiated to date. The Group has requested additional supporting data and information to evaluate the results of the Drilling Program. Although only incomplete information has been provided to date, our review of the letter and the partial supporting data received to date indicates that the estimation of the additional coal resources (Contingent Reserves) made by the engineering company was not properly derived and supported. For that and a number of other reasons the Group believes the letter is deficient and fails to satisfy the contractual requirements for establishing the contingent payment. The sellers have expressed disagreement with our view of the engineer s letter. In December 2013, the Group filed a lawsuit against the engineering company for failing to prepare a report in accordance with JORC Code Guidelines. In January 2014, the Group filed a lawsuit against the sellers seeking a declaration that the conditions precedent for payment of the contingent payment had not been satisfied. Management believes that all lawsuits related to the Drilling program will be resolved for the Group s benefits and the amount of contingent payment will not exceed the liabilities recognized in our consolidated financial statements.

The amount recorded as liabilities in respect of the Drilling Program were $27,718 and $25,665 as of December 31, 2013 and 2012, respectively.

(f) Russian business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group s business in the current circumstances.

26. SUBSEQUENT EVENTS

The Group evaluated subsequent events for these consolidated financial statements through the date when the financial statements were available to be issued, May 15, 2014.

New borrowings and debt restructuring

In April 2014, Mechel Service signed loan agreements with MCB for the restructuring of the existing credit facilities in the amount of $105,000, bearing interest rate at 8% p.a. According to the loan agreements, the Group should repay the credit facility in December 2014. The obligations are secured by a pledge of property, plant and equipment.

MECHEL OAO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2013 and 2012, and for each of the three years in the period ended

December 31, 2013

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In March 2014, Elgaugol signed two loan agreements for an aggregate amount of $2.5 billion with VEB for the project financing of the development of the Elga coal deposit. The loans have a maturity of 13.5 years, with a repayment grace period of 3.5 years. The financing is provided without recourse to the Group except for Elgaugol and is therefore excluded from our financial covenants calculations under all relevant loan agreements. The interest rate under the facilities is 8% p.a. during the 60-month period from the date of the agreements, and LIBOR plus 6% p.a. during the remaining period. The facilities are secured with Elgaugol proprietary land and land lease rights, pledge of immovable property of Elgaugol including construction in progress and pledge over property of Elgaugol with book value over 1 million Russian rubles per unit. There are no financial covenants and no guarantees issued in support of these facilities.

In May 2014, the Group signed an agreement with VTB about refinancing and restructuring of the existing credit facilities in the amount up to 46.5 billion Russian rubles (approx. $1,519,715 at exchange rate as of December 31, 2013) (Note 10). In addition to the 25% plus 1 share of Mechel Mining OAO pledged under the agreement with VTB, the restructured obligations are secured by 12.5% shares of Mechel Mining OAO.