Mechel OAO
Form 20-F
June 19, 2008

Use these links to rapidly review the document
TABLE OF CONTENTS
CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

o **Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

or

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2007**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

or

o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 333-119497

MECHEL OAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation

(Address of principal executive offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
AMERICAN DEPOSITARY SHARES, EACH ADS REPRESENTING THREE COMMON SHARES	**NEW YORK STOCK EXCHANGE**
COMMON SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	**NEW YORK STOCK EXCHANGE[1]**

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

NONE

(Title of Class)

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

NONE

(Title of Class)

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

34,515,823 ADSs
14,046,609 GDSs
416,270,745 common shares

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

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

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

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

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

Large accelerated filer ý Accelerated Filer o Non-accelerated filer o

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

ý US GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board o Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: o Item 17 o Item 18

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

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

TABLE OF CONTENTS

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

Our business consists of three segments: mining, steel and power. References in this document to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted.

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

In this document, references to "U.S. dollars," "$" or "cents" are to the currency of the United States, references to "rubles" or "RUR" are to the currency of the Russian Federation and references to "euro" or "€" are to the currency of the member states of the European Union (the "E.U.") that participate in the European Monetary Union.

The term "tonne" as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

strategies, outlook and growth prospects;

future plans and potential for future growth;

liquidity, capital resources and capital expenditures;

growth in demand for our products;

economic outlook and industry trends;

developments of our markets;

the impact of regulatory initiatives; and

the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of profitability, growth, cost and synergies expected to result from our recent acquisitions, our ability to integrate successfully the power segment of our business, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the condition of the Russian economy, political stability in Russia, volatility in stock markets or in the price of our shares, American depositary shares ("ADSs") or global depositary shares ("GDSs") (collectively, our "Shares"), financial risk management, the impact of general business and global economic conditions and other important factors described herein and from time to time in the reports to be filed by us with the Securities and Exchange Commission (the "SEC").

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The financial data set forth below as of December 31, 2007, 2006, 2005, 2004 and 2003, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").[(1)]

Our results of operations for the periods presented are significantly affected by acquisitions. Results of operations of these acquired businesses are included in our consolidated financial statements for the periods after their respective dates of acquisition. See note 1(a) to our consolidated financial statements in "Item 18. Financial Statements." The financial data below should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and related notes included under "Item 18. Financial Statements" and "Item 5. Operating and Financial Review and Prospects."

	Year ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands of U.S. dollars, except per share data)				
Consolidated income statement data:					
Revenue, net	6,683,842	4,397,811	3,804,995	3,635,955	2,028,051
Cost of goods sold	(4,166,864)	(2,860,224)	(2,469,134)	(2,225,088)	(1,422,987)
Gross profit	2,516,978	1,537,587	1,335,861	1,410,867	605,064
Selling, distribution and operating expenses	(1,119,385)	(811,889)	(820,133)	(660,060)	(407,383)
Operating income	1,397,593	725,698	515,728	750,807	197,681
Other income and expense, net	(12,146)	139,135	10,131	794,288	(21,555)
Income before tax, minority interest, discounted operations, extraordinary gain and changes in accounting principle	1,385,447	864,833	525,859	1,545,095	176,126
Income tax expense	(356,320)	(230,599)	(136,643)	(175,776)	(47,759)
Minority interest in loss (income) of subsidiaries	(116,234)	(31,528)	(6,879)	(11,673)	18,979
Income from continuing operations	912,893	602,706	382,337	1,357,646	147,346
Income (loss) from discontinued operations, net of tax	158	543	(1,157)	(15,211)	(5,790)
Extraordinary gain, net of tax				271	5,740
Changes in accounting principle, net of tax					(3,788)
Net income	913,051	603,249	381,180	1,342,706	143,508
Currency translation adjustment	136,673	148,920	(53,822)	49,116	46,921
Change in pension benefit obligation	(14,365)				
Adjustment of available-for-sale securities	(5,059)	11,203	2,181	(2,350)	
Additional minimum pension liability		(4,669)			
Comprehensive income	1,030,300	758,703	329,539	1,389,472	190,429
Earnings per share from continuing operations	2.19	1.48	0.95	3.63	0.39
Loss per share effect of discontinued operations				(0.04)	(0.01)
Earnings per share effect of extraordinary gain					0.02
Earnings per share effect of changes in accounting principle					(0.01)
Net income per share	2.19	1.48	0.95	3.59	0.39
Cash dividends per share	0.76	0.46	0.48	0.01	0.07
Weighted average number shares outstanding	416,270,745	408,979,356	403,118,680	373,971,312	366,178,815
Steel segment income statement data:					
Revenue, net[(2)]	4,443,200	3,083,652	2,767,028	2,832,189	1,656,358
Cost of goods sold[(2)]	(3,387,007)	(2,224,366)	(2,158,499)	(2,065,480)	(1,230,314)
Gross profit	1,056,193	859,286	608,529	766,709	426,044
Selling, distribution and operating expenses	(498,019)	(452,820)	(502,248)	(399,955)	(291,814)
Operating income	558,174	406,466	106,281	366,754	134,230
Mining segment income statement data:					
Revenue, net[(2)]	2,556,995	1,682,523	1,427,172	1,198,705	596,904
Cost of goods sold[(2)]	(1,241,665)	(1,008,806)	(715,875)	(556,878)	(419,619)
Gross profit	1,315,330	673,717	711,297	641,827	177,285
Selling, distribution and operating expenses	(428,632)	(354,669)	(315,713)	(259,409)	(115,327)

	Year ended December 31,				
Operating income	886,698	319,048	395,584	382,418	61,959
Power segment income statement data:					
Revenue, net[2]	598,515	123,322	24,532	15,907	13,533
Cost of goods sold[2]	(393,154)	(110,273)	(20,242)	(13,576)	(11,798)
Gross profit	205,361	13,049	4,290	2,331	1,735
Selling, distribution and operating expenses	(192,734)	(4,400)	(2,172)	(694)	(243)
Operating income	12,627	8,649	2,118	1,637	1,491
Consolidated balance sheet data (at period end):					
Total assets	9,227,643	4,457,404	3,600,083	3,678,269	1,834,509
Shareholders' equity	3,504,933	2,864,963	2,210,474	2,057,629	448,826
Long-term debt, net of current portion	2,321,922	322,604	45,615	216,113	122,311
Consolidated cash flows data:					
Net cash provided by operating activities	904,969	554,923	620,875	296,137	119,858
Net cash provided by (used in) investing activities	(3,410,466)	(552,538)	(994,707)	455,716	(210,317)
Net cash provided by (used in) financing activities	2,549,881	(162,782)	(308,870)	252,269	103,079
Non-U.S. GAAP measures[3]:					
Consolidated EBITDA[4]	1,658,661	1,068,258	726,252	1,707,711	341,472
Steel segment EBITDA[4]	733,523	663,244	262,363	1,249,643	245,820
Mining segment EBITDA	995,660	404,666	459,166	455,927	93,612
Power segment EBITDA	26,761	9,190	3,211	2,131	2,040

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

(2)

Segment revenues and cost of goods sold include intersegment sales.

(3)

EBITDA represents net income before interest expense, income taxes and depreciation, depletion and amortization. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also present EBITDA by segment because our overall performance is best explained with reference to results of each segment.

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

- EBITDA does not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance.
- EBITDA does not reflect the impact of income taxes on our operating performance.
- EBITDA does not reflect the impact of depreciation, depletion and amortization on our operating performance. The assets of our businesses which are being depreciated, depleted and/or amortized (including, for example, our mineral reserves) will have to be replaced in the future and such depreciation, depletion and amortization expense may approximate the cost to replace these assets in the future. By excluding such expense from EBITDA, EBITDA does not reflect our future cash requirements for such replacements.
- Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

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

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

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

	Year ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(in thousands of U.S. dollars)				
Consolidated EBITDA reconciliation:					
Net income	913,051	603,249	381,180	1,342,706	143,508
Add:					
Depreciation, depletion and amortization	290,315	196,227	167,600	137,820	101,689
Interest expense	98,976	38,183	40,829	51,409	48,516
Income taxes	356,320	230,599	136,643	175,776	47,759
Consolidated EBITDA	1,658,662	1,068,258	726,252	1,707,711	341,472
Steel segment EBITDA reconciliation:					
Net income	394,207	410,142	59,830	1,014,356	114,011
Add:					
Depreciation, depletion and amortization	127,329	102,098	95,715	81,052	67,272
Interest expense	74,928	25,723	35,158	36,058	38,351
Income taxes	137,059	125,281	61,661	118,177	26,186
Steel segment EBITDA	733,523	663,244	252,363	1,249,643	245,820

	Year ended December 31,				
Mining segment EBITDA reconciliation:					
Net income	591,943	195,504	308,377	327,211	28,322
Add:					
Depreciation, depletion and amortization	146,673	93,550	70,563	56,251	33,951
Interest expense	40,945	12,390	5,616	15,351	10,165
Income taxes	216,099	103,221	74,610	57,124	21,174
Mining segment EBITDA	995,660	404,666	459,166	455,937	93,612
Power segment EBITDA reconciliation:					
Net income	(13,047)	6,066	1,230	1,139	1,175
Add:					
Depreciation, depletion and amortization	16,314	579	1,322	517	466
Interest expense	20,332	448	286		
Income taxes	3,162	2,097	373	475	399
Power segment EBITDA	26,761	9,190	3,211	2,131	2,040

(4) The 2004 amount includes a gain of $800.0 million from the sale of our stake in Magnitogorsk Iron & Steel Works OAO ("MMK").

Exchange Rates

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

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

	Rubles per U.S. dollar			
Year ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2007	26.58	24.26	25.58	24.55
2006	28.78	26.18	27.19	26.33
2005	29.00	27.46	28.29	28.78
2004	29.45	27.75	28.81	27.75
2003	31.88	29.25	30.69	29.45

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

	Rubles per U.S. dollar	
	High	**Low**
May 2008	23.88	23.54
April 2008	23.67	23.34
March 2008	24.05	23.51
February 2008	24.78	24.12
January 2008	24.89	24.29
December 2007	24.75	24.42

The exchange rate between the ruble and the U.S. dollar on June 19, 2008 was 23.66 rubles per one U.S. dollar.

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

Recent Developments

Cave-in at Lenin underground mine

On May 30, 2008, there was a cave-in at the Lenin underground mine, an asset of our subsidiary Southern Kuzbass Coal Company in Kemerovo region in Russia. Five of our workers were killed. The causes of the accident are being investigated by the Kemerovo region office of the Russian Federal Service for Environmental, Technological and Nuclear Supervision ("Rostekhnadzor"). The mine resumed operations on June 16, 2008.

Dividends

On May 29, 2008, our Board of Directors recommended to the annual shareholders' meeting an annual dividend of 26.38 rubles per one common share for the 2007 fiscal year. The total dividend the Board recommended to the annual shareholders' meeting would amount to RUR 10,981,222,253.00.

Change in share-to-ADS ratio

On May 19, 2008, we announced a change in the ratio of our ADSs to common shares from 1:3 to 1:1. We issued two additional ADSs for each ADS existing after the market close on May 16, 2008 to implement the ratio change.

Preferred shares

We are considering a placement and listing of preferred shares on domestic and international markets. On April 30, 2008, our shareholders at an extraordinary shareholders' meeting adopted amendments to our charter, which were registered with the Russian state unified register of legal entities (as required for the amendments to become effective) on May 7, 2008. Pursuant to our amended charter we are authorized to issue 138,756,915 preferred shares with a nominal value of RUR 10 per share. The authorized preferred shares are not convertible into bonds or other securities, including common shares, of Mechel. Pursuant to a resolution dated May 14, 2008, our Board of Directors decided to increase our charter capital by authorizing Mechel's issuance of 55,000,000 preferred shares with a nominal value of RUR 10 per share.

Acquisition of Ductil Steel

In April 2008, we acquired a 100% stake in Ductil Steel S.A. ("Ductil Steel") for a purchase price of $221.0 million. Ductil Steel is a Romanian company that owns the Buzau plant which produces carbon and low alloyed steel rolled and wire products, and the Otelu Rosu plant which produces steel and billets for rolling. The Otelu Rosu plant's products are supplied to the Buzau plant and to third parties both domestically within Romania and abroad for further processing. In 2007, Ductil Steel produced 341,158 tonnes of raw steel, as well as 330,900 tonnes of steel billets, 178,462 tonnes of rebar, 96,603 tonnes of wire, 69,542 tonnes of wire rod, 47,764 tonnes of wire mesh and 6,631 tonnes of nails.

Acquisition of Oriel Resources plc

As of May 28, 2008, we completed the purchase of 99.5% of the outstanding shares of Oriel Resources plc ("Oriel") from its shareholders in a public offer conducted under the U.K. Takeover Code. We intend to purchase the remaining Oriel shares pursuant to a mandatory takeover procedure under Chapter 3 of Part 28 of the U.K. Companies Act 2006. The final purchase price was approximately $1.5 billion.

Restructuring of mining and ferroalloy assets

We are currently in the process of separating and consolidating our coal and iron ore assets under a separate mining subsidiary holding company within our group, and we intend to carry out a similar separation and consolidation of our ferroalloy assets (including nickel) in the near term. In connection with this restructuring, we intend to implement management, reporting and control systems for each such subsidiary holding company, allowing for the preparation of consolidated financial statements for each of them. We believe that such separation and consolidation will enable these businesses to obtain the financing necessary for their development and will enable us to optimize their value within our group, including through more focused operational management teams. Such financings may include the issuance and/or sale of both debt and equity securities, including the sale of equity securities in connection with a listing on an international stock exchange.

We intend to retain voting control of these subsidiary holding companies as we continue to build upon our business model of vertical integration among our segments. See " Risk Factors Risks Relating to Our Business and Industry If shares of our subsidiary holding companies are listed on a stock exchange, it could entail changes in such companies' management and corporate governance that might affect our integrated business model."

Risk Factors

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

We have described the risks and uncertainties that our management believes are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also result in decreased operating revenues, increased operating expenses or other events that could result in a decline in the value of our Shares.

Risks Relating to Our Business and Industry

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

Our mining business sells coal, iron ore and nickel. These commodities are traded in markets throughout the world and are influenced by various factors beyond our control, such as global economic cycles and economic growth rates. Prices of these products have varied significantly in the past and could vary significantly in the future. Prolonged declines in world market prices for these products would have a material adverse effect on our revenues.

The steel industry is highly cyclical in nature because the industries in which steel customers operate are cyclical and sensitive to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw-material costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

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

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

Our competitiveness is based in part on our operations in Russia and other former Eastern Bloc countries having a lower cost of production than competitors in higher-cost locations. Economic growth in the countries where our operations are based has been rapid in recent years and there has been a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. See " Recent and potential developments in the Russian rail transportation sector expose us to uncertainties regarding transportation costs of raw materials and steel products" and " Inflation could increase our costs and decrease operating margins." If these production costs continue to increase in the jurisdictions in which we operate, our competitive advantage will be diminished, which could have a material adverse effect on our results of operations and financial condition.

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

While we expect continued growth of demand in the Russian market for specialty long products, our strategy to expand these sales substantially is dependent on our ability to increase our exports of these products to other countries, particularly the E.U. countries. We face a number of obstacles to this strategy, including trade barriers and sales and distribution challenges.

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal, is substantially dependent on our ability to increase our exports of these products from our coal assets in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries. In order to implement this strategy, we must complete the tasks of expanding the cargo-handling capacity of our Port Posiet seaport on the Sea of Japan and making the capital improvements necessary for the development of our Elga coal deposit. See " We will require a significant amount of cash to fund our capital improvements program." If we fail to manage successfully the obstacles and tasks involved in the implementation of our export sales expansion strategy, it could materially adversely affect our prospects.

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

Our ability to generate cash or obtain financing depends on many factors beyond our control, and we need cash and/or financing to carry out our capital expenditures program, which is an important part of our business strategy. We spent $833.5 million during 2007 and expect to spend approximately $800 million in 2008 on our capital expenditures program. These capital expenditures include investments in Yakutugol OAO ("Yakutugol"), including those required to be made pursuant to the terms of the subsoil license for the undeveloped Elga coal deposit. We plan to spend $5.2 billion on our capital expenditures program for the five year period of 2008-2012. See "Item 4. Information on the Company Capital Improvements Program." Our ability to fund planned capital expenditures will, in part, depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Most of our current borrowings are from Russian and international banks and financial institutions as well as ruble-denominated bonds. In the future, we may rely to a greater extent than currently on foreign capital markets and other foreign financing sources for our capital needs. It is possible that these international sources of financing, as well as Russian sources, may not be available in the future in the amounts we require or may be expensive. To meet our requirements, we will likely need to secure equity or debt financing, especially in international capital markets or from international lenders.

In December 2007, we obtained our first international syndicated long-term loan in the amount of $2.0 billion in order to refinance our short term loans incurred in connection with the funding of the acquisition of Yakutugol, Elgaugol OAO ("Elgaugol"), which previously held the subsoil license for the Elga deposit, and related assets. In connection with this loan, we pledged to the lenders 49.9999% of the common shares in Yakutugol and have undertaken not to grant any further security interests with respect to our ownership of Yakutugol. It is possible that in the future such foreign sources of financing may not be available or may be expensive.

International credit markets have experienced, and may continue to experience, high volatility and severe liquidity disruptions stemming from the follow-on effects of the illiquidity of U.S. residential mortgage-backed securities. These and other related events have had a significant impact on the global capital markets, and the reduced liquidity in the global capital markets could limit our ability to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources might have an adverse effect on our business, financial condition and results of operations. See " Risks Relating to the Russian Federation Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our

business, as well as cause the price of our Shares to suffer" and " Risks Relating to the Russian Federation The Russian banking system is still developing, and another banking crisis could place severe liquidity constraints on our business."

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

While we intend to continue to operate as an integrated business, if and when a listing of shares takes place in respect of the subsidiary holding companies we are forming or intend to form to consolidate our mining and ferroalloy assets, changes to the management structure of such subsidiary holding companies and/or the assets consolidated within them may be made in preparation for such a listing. After a listing of a subsidiary holding company, the subsidiary's directors and management would operate the business of such subsidiary, in accordance with applicable law, for the benefit of all shareholders, including minority shareholders. In addition, companies listed on stock exchanges typically comply with certain corporate governance requirements and are encouraged to implement certain corporate governance recommendations, including the appointment of independent directors. These and other changes, if implemented in connection with the consolidation and potential listing of subsidiaries holding our mining and/or ferroalloy assets, may result in decision-making by the directors and management of such subsidiaries that may not be consistent with our current integrated business model or otherwise result in situations where the interests of our group do not coincide with the interests of the subsidiary.

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

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

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

additional demands placed on our senior management, who are also responsible for managing our existing operations;

increased overall operating complexity of our business, requiring greater personnel and other resources; and

incurrence of debt to finance acquisitions and higher debt service costs related thereto.

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

We have acquired and established businesses in countries that represent new operating environments for us and which are located at a great distance from our headquarters in Russia. These businesses conduct operations in accordance with local customs and laws. Thus, it may take some time to implement our operating standards and it is possible that for a certain period of time we may face

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

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

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

Almost all of our business consists of privatized Russian companies, and our business strategy will likely involve the acquisition of additional privatized companies. The Russian statute of limitations for challenging privatization transactions is three years. However, because Russian privatization legislation is vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatization legislation, and the statute of limitations for challenging certain actions related to privatization may be argued to begin to run only upon the discovery of a violation, many privatizations are vulnerable to challenge. In the event that any title to, or our ownership stakes in, any of the privatized companies acquired by us is subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business and results of operations.

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

We have had material weaknesses in our internal control over financial reporting in the past and we make no assurances that additional material weaknesses will not be identified in the future.

Management identified four material weaknesses in our internal control over financial reporting as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 5 that affected our financial statements for the year ended December 31, 2007. The material weaknesses in our internal control over financial reporting identified for the year ended December 31, 2007 are described in "Item 15. Controls and Procedures." Because of the effect of these material weaknesses, our auditors have opined that we have not maintained effective internal control over financial reporting as of December 31, 2007 under Section 404 of the Sarbanes-Oxley Act of 2002.

Notwithstanding the steps we have taken and continue to take that are designed to remedy each material weakness identified as described above, we may not be successful in remedying these material weaknesses in the near or long term and we make no assurances that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in the market price of our Shares.

We depend on key accounting staff for the preparation of U.S. GAAP financial information. Given the competition for such personnel, we may be unable to retain our key accounting staff, which could disrupt our ability to timely and accurately report U.S. GAAP financial information.

Our subsidiaries maintain their books and records in local currencies and prepare accounting reports in accordance with local accounting principles and practices. In particular, each of our Russian subsidiaries maintains its books in rubles and prepares separate unconsolidated financial statements in accordance with Russian accounting standards. For every reporting period, we translate, adjust and combine these Russian statutory financial statements to prepare consolidated financial statements prepared in accordance with U.S. GAAP. This is a time-consuming task requiring us to have accounting personnel experienced in internationally-accepted accounting standards. We believe there is a shortage in Russia of experienced accounting personnel with knowledge of internationally-accepted accounting standards. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of internationally-accepted accounting standards. Such competition makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave our company. Under these circumstances, we may have difficulty in remedying the material weaknesses in our internal financial controls identified by our management and in the timely and accurate reporting of our financial information in accordance with U.S. GAAP. See " We have had material weaknesses in our internal control over financial reporting in the past and we make no assurances that additional material weaknesses will not be identified in the future."

The potential implementation by the Russian government of a law requiring companies to purchase or lease the land on which they operate may have a material adverse effect on our financial condition.

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

The Land Code of the Russian Federation, as amended, which was enacted on October 25, 2001 (the "Land Code"), requires privatized Russian companies to either purchase or lease the land on which they operate by January 1, 2010. In accordance with the current legislation the repurchase price of land plots held under special title of perpetual use is set in the amount of 2.5% of the cadastral value of such land plots. We estimate that the cost for us to purchase the land on which we operate is $61.3 million. This estimate excludes certain land plots on which Beloretsk Metallurgical Plant OAO ("Beloretsk Metallurgical Plant") and Southern Kuzbass Coal Company OAO ("Southern Kuzbass Coal Company") operate, which have not been included in the state cadastral valuation.

Increasing prices of electricity and natural gas could materially adversely affect our business.

In 2007, our Russian operations purchased approximately 4.0 billion kilowatt-hours ("kWh") of electricity, representing 68% of their needs. Domestic electricity prices are currently regulated by the Russian government, but the government is in the process of liberalizing the wholesale electricity market and moving from regulated pricing to a market-based system. This could lead to higher electricity prices. In addition, according to a 2007 long-term macroeconomic forecast made by the Russian Ministry of Economic Development and Trade, electricity prices for industrial users are expected to reach 5.4 cents per kWh in 2008 and from 7.0 to 10.6 cents per kWh by 2020. In 2007, our average cost of electricity was 3.67 cents per kWh. Assuming a price of 5.4 cents per kWh in 2007, our Russian operations would have incurred approximately $69 million in additional costs. Further price increases for electricity may also occur in the future as the industry is controlled to a greater extent by the private sector. If we are required to pay higher prices for electricity in the future, our costs will rise and our business and prospects could be materially adversely affected.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity at our own co-generation facilities, from Gazprom OAO ("Gazprom"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian government. These prices have been rising over the last few years. The average price for industrial consumers was approximately $50.4 per thousand cubic meters ($1.43 per thousand cubic feet) in 2007, and increased by 21% compared with 2006. Further, Russian domestic natural gas prices are significantly below Western European levels, which presently helps to provide us with a cost advantage over our competitors, which is expected to diminish as Russian domestic gas prices approach Western European levels. The Russian Ministry of Economic Development and Trade has forecasted natural gas prices in the range of $97 to $100 per thousand cubic meters ($2.75 to $2.83 per thousand cubic feet) in 2010. If we are required to pay higher prices for gas in the future, our costs will rise and our business and prospects could be materially adversely affected.

Inflation could increase our costs and decrease operating margins.

In 2007, the inflation rate was 11.9%, according to the Russian Federal State Statistics Service ("Rosstat"). The prices for many of our products are denominated in U.S. dollars. As we tend to experience inflation-driven increases in certain of our ruble-denominated costs, including salaries, rents and energy costs, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise, assuming the ruble-to-dollar exchange rate remains constant. See " Further appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations." In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia could increase our costs and have the effect of decreasing operating margins.

Wage inflation in Russia has increased our cost of doing business. According to a February 2008 report of the Russian Ministry of Economic Development and Trade, the nominal average monthly wage from January through December 2007 was 26.7% higher than the corresponding period in 2006, and the inflation-adjusted average monthly wage grew by 16.2% from January through December of 2007, compared to a 13.3% increase during the same period in 2006. If wage inflation in Russia continues to increase, our labor costs will rise and our advantages with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid by us in Russia will be reduced or eliminated. See " The steel and mining industries are highly competitive, and we may not be able to compete successfully."

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

Among other things, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially: (1) limit our ability to obtain additional financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) place us at a competitive disadvantage relative to our competitors with superior financial resources; (4) lead to a loss of collateral pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions, (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends. Our ability to make payments on our indebtedness depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control.

In addition, Russian companies are limited in their ability to effect share placements and have shares in circulation outside of Russia, including in the form of ADSs and GDSs, due to Russian securities regulations. We have received permission from the Federal Financial Markets Service (the "FFMS") for up to 40% of our common shares to be circulated abroad through depositary receipt

programs, which was the maximum volume allowed at that time. Current Russian securities regulations provide that no more than 35% of a Russian company's shares of a particular class or type may be placed and/or circulated abroad. It is unclear whether the FFMS's approval of an amount greater than 35% prior to the establishment of this limit will be respected, or whether the 35% limit established in the current regulations overrides prior FFMS permissions for higher amounts. Until this is clarified, we have instructed our depositary not to allow for the conversion of more than 35% of our common shares into ADSs and GDSs. Given that our ADSs and GDSs currently account for approximately 35% of our common shares, we cannot raise additional equity financing through placement of common shares in the form of depositary receipts. Furthermore, in the event that securities regulations are enacted in the future that further reduce the 35% limit, our depositary may be forced to cancel and convert some of our ADSs and GDSs into a corresponding number of common shares. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

Any of the foregoing factors may limit the amount of capital available to meet our operating requirements. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

We have merged and intend to continue to merge certain subsidiaries for operational reasons from time to time. Under Russian law, such mergers are considered a reorganization and the merged subsidiaries are required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors have a right to accelerate the merged subsidiaries' indebtedness and demand reimbursement for applicable losses. In the event that we undertake any such merger and all or part of certain of our subsidiaries' indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment and our business and financial condition could be materially adversely affected.

Recent and potential developments in the Russian rail transportation sector expose us to uncertainties regarding transportation costs of raw materials and steel products.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian railways are owned by Russian Railways OAO ("Russian Railways"), an open joint-stock company wholly owned by the Russian government. Russian Railways is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways' capital investment program, which is in turn affected by the acute need to upgrade Russian Railways' rolling stock, track infrastructure and passenger- and cargo-handling facilities. If rail freight prices increase, or if there is a disruption in transportation of our materials and products due to a shortage of available working rolling stock, it could adversely affect our business, financial condition, results of operations and prospects.

In December 2007, Russian Railways transferred over 200,000 of its freight cars to its subsidiary Pervaya Gruzovaya Kompaniya OAO ("First Freight Company"), which since beginning operations in December 2007 has rented freight cars to us, as well as to other rail freight consignors. However, freight shipping services are still rendered by Russian Railways. The commencement of the operations of First Freight Company has led to an increase in our freight shipment costs. According to Russian Railways, in the future First Freight Company will offer freight shipment services, including international shipping. The Russian press has reported that Russian Railways intends to conduct an initial public offering of First Freight Company shares. If First Freight Company's role in the Russian rail freight industry increases, or if its ownership or business model change as a result of an initial public offering of its shares, it could result in further increases in our freight shipment costs, which in

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

On May 6, 2008, an interdepartmental Russian government commission on structural reform of the rail transportation sector, headed by the Russian Ministry of Transportation, approved draft amendments to the Federal Law "On Rail Transportation," for further submission to the State Duma. The text of the draft has not been made public. Changes to Russian legislation regulating the rail transportation sector could result in further increases in our freight shipment costs, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

We face numerous protective tariffs, duties and quotas which reduce our competitiveness in, and limit our access to, particular markets. Several key steel importing countries currently have import restrictions in place on steel products or intend to introduce them in the future. The E.U. has a quota system in place with respect to Russian steel imports, which affected our exports to ten countries in Central and Eastern Europe and the Baltic states (Estonia, Lithuania and Latvia) that joined the E.U. in 2004 as well as to Romania and Bulgaria, which joined the E.U. in 2007. Our sales into the E.U. constituted approximately 19% of our steel segment revenues and approximately 61% of our steel segment export revenues in 2007. The export of our steel into the E.U. is an important part of our growth strategy. If E.U. quotas are not increased in line with our sales growth objectives, our ability to expand our sales in the E.U. and pursue our growth strategy could be limited. In addition, the E.U. has imposed antidumping duties on certain of our exports. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the E.U. of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant OOO ("Bratsk Ferroalloy Plant") for a period of five years.

In 2007, approximately 20% of our steel segment's revenues from export sales were derived from sales of steel products that were subject to import restrictions. See "Item 4. Information on the Company Steel Business Trade restrictions."

In May 2008, Russia's Minister of Industry and Trade invited us, as well as other major Russian steel producers such as Metalloinvest OOO ("Metalloinvest"), Evraz Group S.A. ("Evraz Group"), Severstal OAO ("Severstal"), MMK and Novolipetsk Metallurgical Works OAO ("NLMK"), to develop a joint position on the Russian government's proposal to impose tariffs on exports of steel from Russia or to abolish import tariffs on imported steel products. The imposition of export duties on steel would make our steel products more expensive for end users, which could reduce our competitiveness vis-à-vis our international competitors and result in a loss of a portion of our export sales, which could materially adversely affect the results of our operations, financial condition and prospects. See " We benefit from Russia's tariffs and duties on imported steel, which may be eliminated in the future."

We benefit from Russia's tariffs and duties on imported steel, which may be eliminated in the future.

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5% of value, but also increase to 15% of value for certain higher value-added steel products. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2007. These tariffs and duties may be reduced or eliminated in the future, which could materially adversely affect our revenues and results of operations.

In August 2007, Russia and Ukraine signed an agreement imposing quotas on the export of Ukrainian steel bars to the Russian market. The agreement will be effective through December 31, 2010. The total quota of steel bars from Ukraine to Russia is equal to 1,205,000 tonnes during the effective term of the trade agreement and is divided into annual volumes. We believe that we benefit from this agreement because it prevents subsidized Ukrainian exports from reducing the prices we otherwise could obtain for these products in our domestic markets.

From March 20, 2007, an antidumping duty has been imposed on corrosion-resistant steel originating in the E.U. at the rate of €840 per tonne. The duty, which we believe will benefit us, will be in force for a total of three years.

According to available public information, Russia could join the World Trade Organization (the "WTO") as early as 2009. Russia's future accession to the WTO could negatively affect our business and prospects. In particular, Russia's entry into the WTO may require gradual reduction or elimination of import tariffs and duties on steel products, causing increased competition in the Russian steel market from foreign producers and exporters. See also " Increasing prices of electricity and natural gas could materially adversely affect our business."

Further appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations.

Our reporting currency is the U.S. dollar. Our products are typically priced in rubles for Russian domestic sales (or in other local currencies for domestic sales outside of Russia, as the case may be) and in U.S. dollars (and, to a lesser extent, euros) for export sales, whereas the majority of our direct costs are incurred in rubles and, to a lesser extent, in other local currencies where our operations are based. Appreciation in real terms of the ruble against the U.S. dollar results in an increase in our costs relative to our revenues, while at the same time depreciating our U.S. dollar-denominated liabilities. In 2007, the ruble appreciated in real terms against the U.S. dollar by 15% as compared with 2006, according to Rosstat. If the prices we are able to charge for our products do not increase enough to compensate for our increasing ruble expenditures, further real appreciation of the ruble against the U.S. dollar may materially adversely affect our results of operations.

Limitations on the conversion of rubles to foreign currencies in Russia could increase our costs when making payments in foreign currencies to suppliers and creditors and could cause us to default on our obligations to them.

Many of our major capital expenditures are denominated and payable in various foreign currencies, including the U.S. dollar and euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency without limitation. However, as the Russian authorities may impose limitations on the currency conversion market in the event of an economic or currency crisis, in such an event there may be a delay or other difficulty in converting rubles into a foreign currency to make a payment or delay in or restriction on the transfer of foreign currency. This, in turn, could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition and results of operations.

Estimates of our reserves are subject to uncertainties.

The estimates concerning our reserves contained in this document are subject to uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. Actual production results may differ significantly from reserve estimates. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity.

In addition, the calculation of reserves of the Elga coal deposit, which we acquired in October 2007 along with our acquisition of Yakutugol, is subject to certain risks due to the license obligations and capital costs involved in commencing production and the nature of the undeveloped Elga coal deposit. See "Item 4. Information on the Company Mining Business Mineral reserves."

We are subject to mining risks.

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

In particular, hazards associated with our open pit mining operations include, but are not limited to:

- flooding of the open pit;
- collapses of the open pit wall;
- accidents associated with the operation of large open pit mining and rock transportation equipment;
- accidents associated with the preparation and ignition of large-scale open pit blasting operations;
- deterioration of production quality due to weather; and
- hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination.

Hazards associated with our underground mining operations include but are not limited to:

- underground fires and explosions, including those caused by flammable gas;
- cave-ins or ground falls;
- discharges of gases and toxic chemicals;
- flooding;
- sinkhole formation and ground subsidence; and
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

We are at risk of experiencing any and all of these hazards. The occurrence of any of these hazards could delay production, increase production costs, result in injury to persons and damage to property, as well as liability for us. The liabilities resulting from any of these risks may not be adequately covered by insurance, and we may incur significant costs that could have a material adverse effect upon our business, results of operations and financial condition.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our operating results.

Our operations and properties are subject to environmental, worker protection and industrial safety and other laws and regulations in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of hazardous sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including some requiring the clean-up of contamination and

reclamation, such as requirements for cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Generally, there is a greater awareness in Russia of damage caused to the environment by industry than existed during the Soviet era. At the same time, environmental legislation in Russia is generally weaker and less stringently enforced than in the E.U. or the United States. However, recent Russian government initiatives indicate that Russia will introduce new water, air and soil quality standards and increase its monitoring and fines for noncompliance with environmental rules. In addition, we are currently assessing whether our Romanian operations will face higher environmental compliance costs due to the integration of Romania into the E.U. See note 26(c) to our consolidated financial statements in "Item 18. Financial Statements."

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2007, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of $71.3 million for asset retirement obligations, consistent with U.S. GAAP requirements. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

Also, in the course, or as a result, of an environmental investigation by Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to halt for a 90-day period. We have been cited in Russia for various violations of environmental regulations in the recent past, including during the 2007 financial year, and we have paid certain fines levied by regulatory authorities in connection with these infractions. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective periods since we acquired or established them, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In the event that production at any of our facilities is partially or wholly suspended due to this type of sanction, our business could suffer and our operating results could be negatively affected.

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

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

Our business depends on the continuing validity of our licenses and the issuance of new licenses and our compliance with the terms thereof, including subsoil licenses for our mining operations. Regulatory authorities exercise considerable discretion in the timing of license issuance, renewal of licenses and monitoring licensees' compliance with license terms. In particular, subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See "Item 4. Information on the Company Regulatory Matters Subsoil licensing Maintenance and termination of licenses." If regulatory authorities determine that we have violated the terms of our licenses, it could lead to suspension or termination of our licenses, and to administrative, civil and criminal liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. See "Item 4. Information on the Company Mining Business Mineral reserves." Accordingly, these factors may seriously affect our ability to operate our business and realize our reserves.

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

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

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

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

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

Our controlling shareholder has the ability to take actions that may conflict with the interests of the holders of our Shares.

Our Chief Executive Officer, Igor V. Zyuzin, directly and indirectly owns approximately 69.87% of our common shares and may also acquire additional shares from time to time. Except in certain cases as provided by the Federal Law "On Joint-Stock Companies," dated December 26, 1995, as amended

(the "Joint-Stock Companies Law"), resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority vote of shares represented at such a shareholders' meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions. Thus, our controlling shareholder can take actions that may conflict with the interests of other holders of our Shares.

Our competitive position and future prospects depend on our senior managers and other key personnel.

Our ability to maintain our competitive position and to implement our business strategy is dependent to a large degree on the services of our senior management team and other key personnel, particularly Mr. Zyuzin, our Chief Executive Officer and controlling shareholder. See " Our controlling shareholder has the ability to take actions that may conflict with the interests of the holders of our Shares" and "Item 6. Directors, Senior Management and Employees Directors and Executive Officers." Mr. Zyuzin has provided and continues to provide strategic direction and leadership to us.

Moreover, competition in Russia, and in the other countries where we operate, for personnel with relevant expertise is intense due to the small number of qualified individuals and, as a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the Russian labor market. We are not insured against the adverse effects to our business resulting from the loss or dismissal of our key personnel. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Regulation by the Federal Antimonopoly Service could lead to sanctions with respect to the subsidiaries we have acquired or established, our prices or our sales volumes.

Our business has grown substantially through the acquisition and founding of companies, many of which required the prior approval or subsequent notification of the Russian Federal Antimonopoly Service (the "FAS") or its predecessor agencies. In part, relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without this approval or notification. This legislation is vague in certain parts and subject to varying interpretations. If the FAS were to conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and that competition has been limited as a result, it could seek redress, including invalidating the transactions that led to the violation of competition laws, obliging the acquirer to perform activities to restore competition, and seeking the dissolution of the company operating in contravention of antimonopoly legislation. Any of these actions could materially adversely affect our business and our results of operations.

As of April 21, 2008, eight of our subsidiaries were included by the FAS in its register of companies controlling more than 35% of a specific market, including:

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

Chelyabinsk Metallurgical Plant OAO ("Chelyabinsk Metallurgical Plant") as controlling more than 65% of the market for forgings made of stainless steel ingots in the Russian market; also as controlling more than 65% of the heat energy market in the Metallurgical municipal district of the city of Chelyabinsk;

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

Izhstal OAO ("Izhstal") as controlling more than 65% of the market for graded high-speed steel and its substitute and the market for small shaped graded high-speed steel in the Russian Federation;

Vyartsilya Metal Products Plant ZAO ("Vyartsilya Metal Products Plant") as controlling more than 65% of the market of railroad transportation of cargo for third parties and companies on the track section from Vyartsilya Village to Vyartsilya Station;

Southern Kuzbass Power Sales Company OAO ("Southern Kuzbass Power Sales Company") as controlling more than 50% of the electricity trading market in Kemerovo region;

Mechel-Energo OOO ("Mechel-Energo") as controlling more than 50% of the market for the trading of electricity in the cities of Mezhdurechensk, Myski and Novokuznetsk; and

Yakutugol, including its subsidiaries Dzhebariki-Khaya Mine OAO ("Dzhebariki-Khaya Mine") and Kangalassk Open Pit Mine OAO ("Kangalassk Open Pit Mine") as controlling more than 65% of the coal market of the Sakha Republic (an administrative region of Russia in eastern Siberia, also known as Yakutia) and as holding a dominant market position as the sole supplier of Far East Generating Company OAO, a power plant designed to consume only the type of coal produced by Yakutugol and its subsidiaries.

Inclusion of our subsidiaries in the register of companies controlling more than 35% of a specific market, as well as the classification of us or any of our subsidiaries as monopolists or persons holding a dominant market position, does not by itself restrict our current activities or the activities of these subsidiaries. However, these subsidiaries may be subject to additional FAS oversight by reason of their having been deemed to have a dominant market position.

On April 14, 2008, the FAS issued a directive ordering Yakutugol, Southern Kuzbass Coal Company and Mechel-Invest OOO ("Mechel-Invest"), as a group of companies holding a dominant position on the Russian coking coal market, to fulfill the following requirements:

to support certain production volumes and product lines;

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

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

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

Additionally, on March 6, 2008 we received from the FAS two directives related to the same subsidiaries, with one of them also being addressed to Elgaugol. These directives contain requirements similar to the ones described above, except for the requirement for prior notification of contemplated price increases. Under these two directives the companies are required to notify the FAS within ten days of a price increase exceeding 15% as compared to the prices used a year prior to such price increase.

Furthermore, in connection with the establishment of Mechel-Mining OAO, the subsidiary into which certain mining assets are being consolidated, Mechel received a directive from the FAS dated May 13, 2008, which contains requirements as to the activities of Mechel, Southern Kuzbass Coal

19

Company and Korshunov Mining Plant OAO ("Korshunov Mining Plant"), which have been deemed by FAS to be a group of companies holding a dominant position on the Russian coking coal market. The requirements repeat those described above pursuant to the directive issued to Yakutugol, Southern Kuzbass Coal Company and Mechel-Invest on April 14, 2008.

Upon being notified of a planned price increase, the FAS may direct a less substantial price increase to be implemented instead of the planned increase, although to our knowledge FAS has not taken such action in the past.

The FAS may treat a failure by one of our subsidiaries to carry out the FAS's directives as an abuse of such subsidiary's dominant market position. In the event we are deemed to be abusive of our dominant market position, the FAS may impose certain restrictions and fines with respect to our subsidiaries, which could have an adverse impact upon the operations of these subsidiaries and materially adversely affect our business and results of operations.

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

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly owned subsidiaries have had other shareholders in the past. We and our subsidiaries in the past have carried out, and continue to carry out, transactions among our companies and affiliates, as well as transactions with other parties which may be considered to be "interested party transactions" under Russian law, requiring intragroup approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and the parties involved. See "Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Interested Party Transactions." The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations, and these transactions may not always have been properly approved. We cannot make any assurances that our and our subsidiaries' applications of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

Russian law does not protect us against and does not allow us to include in our charter protections against greenmail and other similar actions by minority shareholders. For example, minority shareholders holding as little as a single share in a company have standing under Russian law to bring claims against the company. These features of Russian corporate law are often abused by minority shareholders, who can bring claims in local courts seeking injunctions and other relief for which, as a

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

Our existing arrangements with trade unions may not be renewable on terms favorable to us, and our operations could be materially adversely affected by a worsening of labor relations in the future.

As of December 31, 2007, approximately 75% of our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us and we consider our relations with our employees to be good, under Russian law unions have the legal right to strike and other Russian companies with large union representation have been recently affected by interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relations with our labor force and trade unions worsen in the future. If we are unable to renew our collective bargaining agreements on comparable terms upon their expiry, or if the negotiations of these agreements are highly contentious and employees are dissatisfied at the outcome, our business and results of operations could be materially adversely affected.

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

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, our facilities are not insured, and we have no coverage for business interruption or loss of key management personnel or for third-party liability, other than customary insurance coverage with respect to our international trading operations and sales. In the event that a significant event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production capacity, for which we would not be compensated. For example, if substantial production capacity were lost at our Chelyabinsk Metallurgical Plant, which is our primary steel production facility, we would not be able to replace a substantial portion of this capacity with capacity from our other plants, potentially resulting in the interruption of the production of a number of our products. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, results of operations and financial condition.

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

Members of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuation of property, interested party transactions, major transactions, decisions to transfer licenses, meetings of our group members' governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of noncompliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and our corporate decisions, restrictions on voting rights or the imposition of other liabilities. Because

applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions, and the invalidation of any of them or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

We could be materially adversely affected if we do not comply with our loan agreements.

The terms of most of our loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings and provisions regarding events of default, including those related to current litigations and other proceedings, indebtedness, restrictions on payment of dividends, maintenance of certain financial ratios and compliance with applicable laws and regulations. Additionally, many of our loan agreements contain cross-default provisions whereby an event of default under one agreement may in and of itself result in a cross-default under other agreements. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, dispositions of assets, restructuring, investments into certain of our subsidiaries and others, require prior consent from the respective lenders.

If we fail to comply with the respective provisions contained in any of our loan agreements, including failure to obtain prior consent of lenders for certain actions, such failure could be deemed to be an event of default which could result in, among other things, acceleration of repayment of principal and interest under the relevant loan agreement and any other loan agreement under which a default on such instrument would trigger a cross-default, reduced opportunities for future borrowing, liability for damages, inability to further develop our business and pursue our strategic objectives or review and/or downgrade of our credit ratings, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to Our Shares and the Trading Market

Because the depositary may be considered the beneficial holder of the shares underlying the ADSs and GDSs, these shares may be arrested or seized in legal proceedings in Russia against the depositary.

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

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

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

ADS and GDS holders have no direct voting rights with respect to the shares represented by the ADSs and GDSs. They exercise voting rights with respect to the shares represented by ADSs and GDSs only in accordance with the provisions of the relevant deposit agreement relating to the ADSs and

GDSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS and GDS holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint-Stock Companies Law and our charter require us to notify shareholders no less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors upon publication of the notice in the Russian official newspaper *Rossiyskaya Gazeta*. Our common shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

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

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

The price of our Shares may be highly volatile.

The trading prices of our Shares may be subject to wide fluctuations in response to many factors, including:

- fluctuations in our operating results and those of other Russian and international mining, steel, and power companies;
- fluctuations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges and stock exchanges in developed markets.

ADS and GDS holders may be unable to repatriate their earnings.

Dividends that we may pay in the future on the shares represented by the ADSs and GDSs are calculated in Russian rubles and may be declared and paid to the depositary in rubles. Such dividends

will be converted into U.S. dollars by the depositary and distributed to holders of ADSs and GDSs, net of the depositary's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in the currency markets. Although there is a developing market for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is not guaranteed.

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

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15%.

Russian tax rules applicable to the holders of the ADSs and GDSs are characterized by significant uncertainties. The Ministry of Finance of the Russian Federation has expressed its opinion in private rulings that holders of depositary receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the depositary receipts is duly confirmed. However, the Russian tax authorities have not provided official, generally applicable guidance addressing how an ADS or GDS holder should demonstrate its beneficial ownership in underlying shares. As Russian tax legislation does not specify the form of the documents confirming the status of the beneficiary shareholder in the foreign jurisdiction (e.g., U.S. permanent resident status), the Russian tax authorities have stated that the documents confirming the permanent residence of a foreign company can be documents in any format provided they are officially consularized or apostilled.

Until the Russian tax authorities clarify whether it is permitted under Russian law to withhold Russian withholding tax in respect of dividends a company pays to the depositary at a lower rate than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or an ADS or GDS holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Although non-resident ADS and GDS holders may apply for a refund of a portion of the amount so withheld by us under the relevant income tax treaty, no assurance can be made that the Russian tax authorities will grant any refunds. See "Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations" for additional information.

Capital gains from the sale of ADSs and GDSs may be subject to Russian income tax.

Under Russian tax legislation, gains realized by non-resident legal entities or organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, such as the ADSs and GDSs, may be subject to Russian profits tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition on foreign stock exchanges of the foregoing types of securities listed on these exchanges are not subject to taxation in Russia.

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

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

Our presence outside the United States may limit our ADS and GDS holders' legal recourse against us. Mechel is incorporated under the laws of the Russian Federation. Most of our directors and all of our executive officers reside outside the United States, principally in Russia. All or a substantial portion of our assets and the assets of most of our directors and executive officers are located outside the United States. As a result, holders of our ADSs and GDSs may not be able to effect service of process within the United States upon us or our directors and executive officers or to enforce in a U.S. court a judgment obtained against us or our directors and executive officers in jurisdictions outside the United States, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for holders of ADSs and GDSs to enforce, in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

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

Risks Relating to the Russian Federation and Other Countries Where We Operate

We have not independently verified information we have sourced from third parties.

We have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and we have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the price of our Shares to suffer.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Shares.

Economic Risks

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

Since the dissolution of the Soviet Union in the early 1990s, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

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

Recently, the Russian economy has experienced positive trends, such as the increase in the gross domestic product, a relatively stable ruble, strong domestic demand, rising real wages and a reduced rate of inflation. In addition, the Russian government has experienced a budget surplus in recent years and has accumulated a significant "stabilization fund" and the CBR has considerable hard currency reserves. However, these trends may not continue or may be abruptly reversed in the future.

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

Since the August 1998 Financial Crisis, the Russian banking sector has steadily developed, as demonstrated by the growing presence of prominent international banks in Russia and emergence of a

small number of creditworthy Russian banks. However, many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure, although in recent years, the CBR has increased its supervision of banks and has suspended a number of bank licenses for violation of its banking regulations. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market has led to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. In addition, since Russian banks generally have lower capital adequacy requirements, the banking sector could be more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints as Russian banks would have inadequate capital available to lend to such companies due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. There are few, if any, safe ruble-denominated instruments in which we may invest our excess ruble cash. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

The U.S. credit markets and the global capital markets have recently experienced liquidity disruptions. See " Risks Relating to Our Business and Industry We will require a significant amount of cash to fund our capital improvements program." The Russian economy is vulnerable to these global market downturns and economic slowdowns. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Russia is also one of the world's largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the E.U. or by other principal

export markets. As many of the factors that affect the Russian economy affect our business and the business of many of our domestic customers, we could be materially adversely affected by a prolonged downturn affecting the Russian economy.

Political and Social Risks

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

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future changes in the government, conflicts between federal government and regional or local authorities, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, resulting in an adverse impact on Russia's economy and investment climate, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our Shares.

Corruption and negative publicity could disrupt our ability to conduct our business.

The local press and international press have reported high levels of corruption in Russia, including the bribery of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, there are reports of the Russian media publishing disparaging articles in return for payment. If officials make unlawful demands to us or if we are accused of involvement in official corruption, it could result in negative publicity, disrupt our ability to conduct our business effectively and thus materially adversely affect our business, financial condition and results of operations and the value of our Shares.

Russia's declining population could materially adversely affect our business, financial condition, results of operations and prospects.

In 2008, Rosstat estimated Russia's population at 142 million, a decline of almost seven million from 1992. The U.S. Census Bureau estimates that Russia's population will decline by 14 million people between 2000 and 2025, while the United Nations Population Division's medium term projection suggests a drop of over 21 million over the same period. Although the birth rate recently reached its highest rate in 15 years, the population continues to decline due to a relatively low birth rate, an aging population and low life expectancy. If the present trend continues without a migration inflow to Russia, the decreasing working population will become a barrier to economic growth around 2015, according to the Economic Forecasting Institute of the Russian Academy of Sciences. A shortage of skilled Russian workers combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

Legal Risks and Uncertainties

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

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

- inconsistencies between and among the Constitution, federal law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of fully developed corporate and securities laws;
- substantial gaps in the regulatory structure due to the delay or absence of implementing legislation;
- the relative inexperience of judges in interpreting legislation;
- the lack of full independence of the judicial system from commercial, political and nationalistic influences;
- difficulty in enforcing court orders;
- a high degree of discretion or arbitrariness on the part of governmental authorities; and
- still-developing bankruptcy procedures that are subject to abuse.

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

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

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year.

Our failure to comply with existing laws and regulations or to obtain all approvals, authorizations and permits required for our operations or findings of governmental inspections, may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Any such decisions, requirements or sanctions could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

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

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal noncompliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or noncompliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, under Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as of the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their balance sheets prepared in accordance with Russian accounting standards; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Currently, we have two subsidiaries with negative net assets: Kaslinsky Architectural Art Casting Plant OOO and Mechel Recycling OOO ("Mechel Recycling").

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

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

Governmental and prosecutorial authorities in Russia have a high degree of discretion. Press reports have cited instances of Russian companies and their major shareholders being subjected to government pressure through selective prosecutions of violations of regulations and legislation which are either politically motivated or triggered by competing business groups. Selective or arbitrary government action, if directed at us or our major shareholders, could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our Shares.

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

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate action, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Description of Capital Stock Rights attaching to common shares." Disclosure and reporting requirements have also been enacted in Russia. Concepts similar to the fiduciary duties of directors and officers to their companies and shareholders are also expected to be further developed in Russian legislation. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, the enforcement of these and other protections has been poor.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively

have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to our charter, reorganization, significant sales of assets and other major transactions, which could be prejudicial to the interests of minority shareholders. See " Risks Relating to Our Business and Industry Our controlling shareholder has the ability to take actions that may conflict with the interests of the holders of our Shares."

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

The Civil Code of the Russian Federation, as amended (the "Civil Code"), and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint-Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

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

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

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

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to request that the company redeem their shares at market value in accordance with Russian law. The decisions that trigger this right include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated, except for transactions undertaken in the ordinary course of business; and
- the amendment of our charter in a manner that limits shareholder rights.

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the depositary, under the terms of the agreements governing the deposit of our ADSs and GDSs, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Description of Capital Stock Registration and transfer of shares."

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

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

profits tax;

value-added tax, or VAT;

unified social tax;

mineral extraction tax; and

property and land taxes.

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

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose severe fines, penalties and interest charges. Generally, in an audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law

authorizes upper-level tax inspectorates to reaudit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an audit and ultimately seek back taxes and penalties beyond the three year term. In some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 0% (if as of the date of deciding to pay dividends, the company receiving dividends for a period of not less than 365 days has continuously possessed not less than 50% of the charter capital of the company paying dividends (or depositary receipts of the company giving the right to obtain not less than 50% of its dividends), if the cost of acquisition of shares or depositary receipts of the company paying dividends exceeded RUR 500 million) or 9%, if being distributed by Russian companies to Russian companies and/or individual Russian residents, and 15%, if being distributed by foreign companies to Russian companies and natural persons (tax residents of the Russian Federation) or by Russian companies to foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 15%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized a the tax agent if taxes were withheld by the tax agent under foreign tax law or international tax agreement.

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

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may potentially affect our results of operations.

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. As of the end of 2007, as a result of various tax audits of our companies we received assessments from the tax authorities for transfer-pricing related taxes, interest and penalties totaling $20.2 million relating to the years 2004-2005. We have so far successfully challenged these assessments in court; however, the court decisions that have been issued are subject to appeal by the tax authorities with the Supreme Arbitration Court of the Russian Federation. If similar such assessments are upheld in the future, our financial condition and results of operations could be materially adversely affected. In addition, we could face significant losses

associated with the assessed amount of underpaid prior tax and related interest and penalties. See also " Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of the Shares."

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

Russian currency control regulations could hinder our ability to conduct our business.

In the past, Russian currency regulations imposed various restrictions on operations involving conversion of foreign currencies in an attempt to support the ruble. Effective from January 1, 2007, most of these restrictions have been removed. In 2007, Russian law changed to allow Russian residents to open accounts and effect operations through foreign bank accounts. However, in case of a crisis, the government and the CBR may impose requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia in the future. For example, Russian companies currently must repatriate proceeds from export sales, subject to certain exceptions. Moreover, the foreign currency market in Russia is still developing and we may experience difficulty in converting rubles into other currencies. Any delay or difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults, or prevent us from carrying on necessary business transactions.

Russian capitalization rules could affect our ability to deduct interest on certain borrowings.

Russian capitalization rules limit the amount of interest that can be deducted by a Russian company on debts payable to non-resident shareholders. Until January 1, 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the charter capital of the Russian company. However, thin capitalization rules that came into effect on January 1, 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. Under these rules, a positive difference between the accrued interest and maximum interest calculated in accordance with the thin capitalization rules is considered to be dividends and, thus, is not included in the taxable expenses. Application of the Russian thin capitalization rules could thus affect our ability to deduct interest on certain borrowings that we would otherwise be able to deduct.

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

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

Since our subsidiary Southern Urals Nickel Plant carries out exploration and production on subsoil plots with nickel and cobalt ore deposits, it is likely to qualify as a Subsoil Strategic Company, as defined in "Item 4. Information on the Company Regulatory Matters The Strategic Industries Law." While it is currently unclear whether only the companies included into the list of subsoil plots of federal importance will be deemed to be Subsoil Strategic Companies, as the list of subsoil plots of federal importance has not been yet officially published, we cannot confirm whether the subsoil plots on which Southern Urals Nickel Plant carries out its activity will be included into such list, and thus

whether Southern Urals Nickel Plant is or will be considered a Subsoil Strategic Company. Our subsidiaries Port Posiet, Port Kambarka and Port Temryuk are included into the register of natural monopolies, and therefore are Strategic Companies, as defined in "Item 4. Information on the Company Regulatory Matters The Strategic Industries Law." According to the Strategic Industries Law, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be strategic activity. Chelyabinsk Metallurgical Plant and Izhstal have been deemed by the FAS to occupy a dominant position in production and sale of certain metals and alloys with special features. However, they do not directly supply such products to customers producing weapons or military equipment and we are not aware of whether our products are or may be ultimately used in production of weapons or military equipment. Nevertheless, if these products of Chelyabinsk Metallurgical Plant and Izhstal are used in production of weapons and military equipment, they potentially can be considered Strategic Companies.

Therefore, any sale to a foreign entity or a group of entities of a stake in Port Posiet, Port Kambarka, Port Temryuk and possibly Southern Urals Nickel Plant, Chelyabinsk Metallurgical Plant and Izhstal, which according to the Strategic Industries Law is considered to give control, will be subject to prior approval from state authorities. Likewise, a sale to a foreign entity or group of entities of a stake in Mechel which provides control over Port Posiet, Port Kambarka, Port Temryuk and, possibly, Southern Urals Nickel Plant, Chelyabinsk Metallurgical Plant or Izhstal, will also be subject to prior approval from state authorities. Additionally, in case a foreign entity or group of entities which is a holder of securities of Port Posiet, Port Kambarka, Port Temryuk or Mechel, as well as, possibly, Southern Urals Nickel Plant, Chelyabinsk Metallurgical Plant or Izhstal, becomes a holder of voting shares in amount which is considered to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to a change in allocation of voting shares pursuant to the procedures provided by Russian law (e.g., as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares, holders of preferred shares becoming entitled to vote at a general shareholders meeting in the events provided under Russian law), such shareholders will have to apply for state approval of their control within three months after they received such control.

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

Other Countries Where We Operate

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

We currently have four steel mills in Romania, a hardware plant in Lithuania, a blocking minority stake in a power plant in Bulgaria and two mining projects in Kazakhstan. We may acquire additional operations in countries of the former Soviet Union, former Soviet-bloc countries in Eastern and Central Europe or elsewhere. As with Russia, the other countries where we have operations are emerging markets subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out above in " Economic Risks," " Political and Social Risks" and " Legal Risks and Uncertainties."

Item 4. Information on the Company

Overview

We are a vertically integrated mining and metals group with revenues of $6.7 billion in 2007.

Our mining business consists of coal, iron ore and nickel mines in Russia. Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky Basin, near the city of Mezhdurechensk in southwestern Siberia. We have four open pit mines Krasnogorsk, Tomusinsk, Olzherassk and Sibirginsk and three underground mines Lenin, Sibirginsk and New-Olzherassk. In the Sakha Republic in eastern Siberia, our subsidiary Yakutugol operates the Nerungrinsk and Kangalassk open pit mines and the Dzhebariki-Khaya underground mine, and also holds the license rights to mine the undeveloped Elga coal deposit, which we plan to mine using the open pit method after making certain necessary infrastructure improvements.

We also provide coal washing services, both to our coal-mining subsidiaries and to third parties; according to the Central Dispatching Department of the Fuel and Energy Complex (the "Central Dispatching Department"), a Russian state enterprise that provides statistics and analytical information to Russia's Ministry of Energy and to Russian fuel and energy companies, at the end of 2007 we controlled 26% of Russia's overall coal-washing capacity.

Our subsidiary Korshunov Mining Plant operates three open pit iron ore mines Korshunovsk, Rudnogorsk and Tatianinsk. These mines are located near Zheleznogorsk-Ilimsky, a town in Irkutsk region in central Siberia. Our subsidiary Southern Urals Nickel Plant operates two open pit nickel mines Sakhara and Buruktal and a nickel production plant in the city of Orsk in Orenburg region, in the southern part of Russia's Ural mountain range.

In May 2008, we acquired Oriel Resources plc. Oriel's assets include the Voskhod chrome mine and the Shevchenko nickel project in Kazakhstan and the Tikhvin ferrochrome plant in Russia. These assets are in various stages of development and are an important component of our strategy of developing an integrated ferroalloy business.

Our steel business comprises the production and sale of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including hardware, stampings and forgings. It also produces significant amounts of coke, both for internal use and for sales to third parties. We have the flexibility to supply our own steel mills with our mining products or to sell such mining products to third parties, depending on price differentials between local suppliers and foreign and domestic customers.

Our steel and steel-related production facilities in Russia include two integrated steel mills, a coke plant, a hardware plant, a forging and stamping mill and a scrap processing facility in the southern Ural Mountains, a ferrosilicon plant in eastern Siberia, a hardware plant in northwestern Russia near the border with Finland and a coke and coal gas plant near Moscow. Outside of Russia, our steel facilities are in the E.U., including a hardware plant in Lithuania and four steel mills in Romania.

Our power business is the newest of our three segments. In April 2007, we acquired a controlling interest in Southern Kuzbass Power Plant OAO ("Southern Kuzbass Power Plant"), located in the city of Kaltan, in Kemerovo region. In June 2007, we acquired a controlling interest in Southern Kuzbass Power Sales Company, the largest power distribution company in Kemerovo region. In December 2007, we purchased a 49% stake in Toplofikatsia Rousse, a power plant located in Rousse, Bulgaria. We envision that our power business will enable us to market another higher value-added product made from our steam coal, such as electricity and heat energy, and increase the electric power self-sufficiency of the mining and steel segments of our business.

Our group includes a number of logistical and marketing assets that help us to deliver and market our mining products, raw steel, manufactured steel goods and ferroalloy products. We have freight

seaports in Russia on the Pacific Ocean and on the Black Sea and a freight river port on a tributary of the Volga River in central Russia. We have a freight railcar pool, and we have begun building a private rail branch line to access one of our coal deposits in eastern Siberia. We have a network of overseas branches and agents to market our products internationally, and we have a Russian domestic customer service subsidiary with 27 regional warehouses.

Mechel OAO is an open joint-stock company incorporated under the laws of the Russian Federation. We conduct our business through a number of subsidiaries. We are registered with the Federal Tax Service of the Russian Federation under state registration number 1037703012896. Our principal executive offices are located at Krasnoarmeyskaya Street, 1, Moscow 125993, Russian Federation. Our telephone number is +7 495 221 8888. Our Internet addresses are www.mechel.com and www.mechel.ru. Information posted on our website is not a part of this document. We have appointed CT Corporation Systems, 111 Eighth Avenue, New York, New York 10011 as our authorized agent upon which process may be served for any suit or proceeding arising out of or relating to our shares, as well as the ADSs and the GDSs or the deposit agreement related thereto.

Competitive Strengths

Our main competitive strengths are the following:

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

By volume we are the largest coking coal producer in Russia and one of the largest worldwide.

According to the Central Dispatching Department, in 2007 we were the largest producer of coking coal in Russia by volume. Based on publicly available information, we believe we are the third largest coking coal producer in the world based on 2007 production volume. According to the Central Dispatching Department, we also control 26% of Russia's coking coal washing capacity by volume.

Our acquisition of the remaining 75% less one share of Yakutugol in October 2007 has given us a 21% market share in the coking coal market in Russia by production volume in 2007 according to data from the Central Dispatching Department (counting Yakutugol's entire 2007 production). According to RasMin OOO ("RasMin"), a private information and research company focusing on the coal-mining industry, in 2007 Yakutugol's export sales of coking coal were the largest by volume of any Russian company. Yakutugol has major customers in Japan, South Korea and Taiwan.

Acquiring control over Yakutugol, which has three working mines and also holds the license to the undeveloped Elga coal deposit in the Sakha Republic, allowed us to add 244.0 million tonnes in additional coal reserves and 521.1 million tonnes in additional coal deposits as of January 1, 2008.

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

According to a comparison by Metall-Expert, a private Russian analytical agency focusing on the metals business ("Metall-Expert"), in 2007 by production volume we were Russia's second largest producer of long steel products (excluding square billets) after Evraz Group, and first in the production of wire rod. Our long steel products business has particularly benefited from increased infrastructure and construction activity in Russia. Our share of Russia's total production volume of reinforcement bars (rebar) in 2007 was approximately 23% according to Metall-Expert. According to Metall-Expert and Chermet, a Russian ferrous metals industry association ("Chermet"), we are Russia's second largest producer of specialty steel by production volume, accounting for 26% of Russia's total specialty steel output in 2007. Our product range in specialty steel is broader and more comprehensive than other Russian producers, giving us an added advantage in the domestic Russian market.

High degree of vertical integration

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

We believe that our internal supplies of coking coal, iron ore and nickel provides us significant advantages over other steel producers, such as higher stability of operations, better quality control of end products, reduced production costs, improved flexibility and planning latitude in the production of our steel and value-added steel products and the ability to respond quickly to market demands and cycles. We believe that the level of our self-sufficiency in raw materials sets our steel business apart in certain respects: based on publicly available information, we believe we are the world's only steel manufacturer with its own nickel supply, and our acquisition of Oriel in May 2008 has given us the potential to mine our own chrome, which we believe would make us the world's only steel producer with its own chrome supply, based on publicly available information.

We are capable of internally sourcing 100% of the coking coal, 85% of the iron ore, 100% of the nickel and 100% of the ferrosilicon requirements of our steel segment. We constantly adjust the level of inputs that we source from our group companies on the basis of external economic factors such as market prices and transportation costs, as well as internal changes in demand for certain grades or types of materials. In 2007, we internally sourced 74% of the coking coal, 42% of the iron ore, 66% of the nickel and 30% of the ferrosilicon requirements of our steel segment. We are capable of satisfying approximately 50% of our group's electricity needs from our own generation facilities; in 2007, we satisfied approximately 29% of our electricity needs internally.

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

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

One of the ways we maximize our flexibility in getting the best possible prices for our products is by delivering goods as close to the consumer as possible. To this end, in recent years we have made significant investments in our logistics capabilities. Having our own logistics capability enables us to avoid infrastructure bottlenecks and allows us to market our products directly to a wider range of customers, both in terms of geographical reach and the size of the customers, and to reduce our reliance on trade intermediaries.

We own two seaports and a river port and we have our own rail rolling stock. Port Posiet in Russia's Far East, on the Sea of Japan, allows us easy access to Pacific Rim coal customers and provides a delivery terminal for the coal mined by our subsidiary Yakutugol in eastern Siberia. We are in the process of upgrading Port Posiet to accommodate Panamax ships, which will increase its attractiveness and utility as an export port for large volumes of coal. Port Kambarka, on the Kama River in the Udmurt Republic (a Russian administrative region also known as Udmurtia) is connected to the Volga River basin and the Caspian Sea, and is connected by canal to the Don River and the Baltic Sea. In 2007, we increased our strength in cargo shipment logistics with the acquisition of Port Temryuk on the Sea of Azov, an inlet of the Black Sea basin, which is primarily used for coal transshipment and provides us access to the fast-growing economies of the Black Sea basin and beyond. As of December 31, 2007, our subsidiary Mecheltrans OOO ("Mecheltrans") owned and leased more

than 3,900 rail freight cars that we use to ship our products. Pursuant to the terms of our license to mine the Elga coal deposit we plan to construct a private rail branch line, which we will own and control subject to applicable regulation. This rail branch line will connect the Elga coal deposit to Ulak Station on the Baikal-Amur Mainline, which in turn connects to the Transsiberian Railway, serving European Russia west of the Ural Mountains and eastward to the Pacific Ocean. We anticipate that the Elga branch line not only will provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the primary transportation corridor for coal mined in nearby license areas.

One of the lowest-cost coking coal producers worldwide

Our coking coal mining and transportation costs are among the lowest of our major Russian competitors.

We view strict cost management and increases in productivity as fundamental aspects of our day-to-day operations, and continually reassess and improve the efficiency of our mining and metals operations. Approximately 75% of our coking coal production is mined from open pit mines, which we believe based on publicly available information is a greater percentage than any of our major domestic competitors. Open pit mining is generally considered safer, cheaper and faster than the underground method of coal mining. Most of our mines and processing facilities have long and established operating histories.

By acquiring Yakutugol in the fourth quarter of 2007, we have secured a high-quality, high-volume coking coal producer with an existing Pacific Rim customer base as well as an opportunity for synergies with our Port Posiet seaport on the Pacific Ocean. Using our own port to ship coking coal to overseas customers from our eastern Siberian coal mines located within 2,500 kilometers from the port a relatively short distance in the Russian context also allows us to have coking coal transportation costs that we believe, based on publicly available information and our industry contacts, are among the lowest of our Russian competitors.

Our coking coal mining costs are lower than those of many of our international competitors.

Our base of operations in Russia and our high degree of vertical integration allows us to take advantage of a number of cost advantages vis-à-vis many of our international competitors. Having the ability to internally source our materials also gives us better market insight when we negotiate with our outside suppliers and improves our ability to manage our raw material costs. These advantages include lower labor costs, access to power and gas supplies that are inexpensive from an international perspective and our cost savings from producing approximately 75% of our coking coal in open pit rather than underground mines. We internally satisfy nearly a third of our electricity needs from our own co-generation facilities, and purchase the remainder at relatively low, regulated prices. We also purchase natural gas from Gazprom at relatively low, regulated prices for our power generation and other production needs. Based on publicly available information, we believe that Russia has lower labor costs, including fewer pension obligations, as compared to the United States, Western Europe, Japan and South Korea. We believe that our Russian base of operations provides us with cost advantages over many of our international competitors not only in terms of labor and energy costs, but tax and regulatory compliance as well.

We believe that we have a significant competitive advantage over our competitors in our ability to increase our production capacity relatively cost effectively because our substantial existing infrastructure can accommodate new facilities and production lines through brownfield development. Moreover, due to our integration, experience and location in Russia, which has some of the largest deposits of coal and iron in the world, we are better positioned than many of our international competitors to secure raw materials for any increases in steel production.

Strategically positioned to supply key growth markets

Our mining and logistical assets are well-positioned to expand exports to fast-growing Asian markets.

We believe that the geographical locations of our assets, particularly the eastern Siberian coal mines of Yakutugol and its undeveloped Elga coal deposit, are strategically located to expand exports of our products to key Asian markets. With Port Posiet on the Sea of Japan and its annual cargo throughput capacity of 2.5 million tonnes, located within 2,500 kilometers of our eastern Siberian coal assets, we are positioned to expand our exports to key growth markets; this is particularly relevant in respect of coking coal, which we are well-positioned to deliver for steel mills in fast-growing economies in South Asia and East Asia. We have a sales and distribution network with offices in four countries and agents in 15 additional countries. This network facilitated sales constituting 36% and 37% of our total sales in 2007 and 2006, respectively, reducing our reliance on the Russian market in the event that it were to experience a downturn. We view our international marketing capabilities and the proximity of our mining and logistical assets to key fast-growing economies as a key competitive advantage which allows us to diversify our sales, provides us with additional growth opportunities and acts as a hedge in the event of a decrease in demand from customers in Russia.

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

Russia is our most important market and we have significant domestic market shares in all our key specialty steel and rolled long product lines. We believe we have established a strong reputation and brand image for Mechel within Russia, just as we have with our international customers. The location of a number of our core steel segment assets in the southern Urals positions us advantageously, from a geographical and logistical perspective, to serve the areas in Russia west of the Urals where Russia's construction industry is most active. The construction industry has been a key source of our growth and we have captured a large portion of the market; according to Metall-Expert, our share of Russia's total production volume of construction rebar in 2007 was approximately 23%.

Successful track record of acquisitions

Along with the expansion of the Russian economy and the increased efficiency of our operations and improved quality of our products, our ability to select acquisition targets and incorporate them into our group has been a key driver of our growth. The potential for synergies within our existing assets and the potential for reducing costs and improving efficiency are key criteria we apply when acquiring companies and assets. Through acquisitions, the nature of the business of our group has changed, expanding our steel product portfolio towards higher-value-added specialty steel products and our upstream product portfolio towards highly-sought grades of coal. Parallel to the expansion in our mining and metals businesses, our expanding logistics capabilities, including our own port facilities and rolling stock, have allowed us to reduce the potential for transportation bottlenecks and maintain and improve our reliability as a supplier to a wider range of customers.

Building upon our success in turning around the coal operations of Southern Kuzbass Coal Company in the late 1990s and following our acquisition and revitalization of Chelyabinsk Metallurgical Plant, in the last few years we have acquired other metal finishing and hardware manufacturing operations that we can supply with our steel. As we have acquired and integrated companies that are closer to the end-customers and produce higher-value-added products, the nature of our group has transformed steadily from primarily a raw materials processor to a vertically integrated, logistically coherent mining and metals group that offers customers products from virtually every stage of the industrial process.

With each of our acquisitions, we implement improved operational and management practices. We also analyze each acquisition to determine the minimum capital expenditures necessary to achieve our target increases in productivity and efficiency, both on a per-asset and group-wide basis. We also devote

the management, technological and logistical resources necessary to integrate new acquisitions into all aspects of our business, including the supply of raw materials and steel, industrial production and sales and distribution. We have a track record of using existing workforces and maintaining strong relations with the local communities where we operate following our acquisitions.

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

A recent example of our track record of identifying opportunities for efficiency and intra-group synergies relates to Mechel Campia Turzii S.A. ("Mechel Campia Turzii"), which requires steel billets as raw material for its plant. In order to achieve cost savings, we decided to use steel billets supplied by a plant owned by our new Romanian subsidiary Ductil Steel, acquired in April 2008, to replace the billets formerly delivered to Mechel Campia Turzii from our Chelyabinsk Metallurgical Plant, thereby avoiding transportation costs and import duties. Another example of our ability to integrate our subsidiaries while identifying and eliminating inefficiencies is our acquisition of Yakutugol. Yakutugol operated at a loss in the first three quarters of 2007, during which we owned a non-controlling 25% interest in the company. In October 2007 we acquired a full 100% interest in Yakutugol, and in the fourth quarter of 2007, Yakutugol began operating with a profit primarily due to our implementation of effective management techniques.

Track record of strong financial performance

We have experienced year-on-year EBITDA growth of 55% and 47% in the financial years ended December 31, 2007 and 2006, respectively. We have also experienced year-on-year revenue growth of 52%, 15% and 4% in the financial years ended December 31, 2007, 2006 and 2005, respectively. We have been able to finance most of our capital improvements program with cash flow from operations. We have enjoyed access to financing from leading international banks, including during a period of high volatility in the international credit markets. In late 2007, we secured a $2 billion loan to finance our purchase of Yakutugol and Elgaugol and related assets. In March 2008, we secured a $1.5 billion loan to finance the acquisition of Oriel.

Our financial strength has allowed us to upgrade our existing facilities while we finance acquisitions. See " Capital Improvements Program."

Strong and focused management team

Our current management team has significant experience in all aspects of our businesses and has successfully transformed us from a small coal trading operation to a large, integrated coal, steel and power producer. Mr. Zyuzin, our controlling shareholder, is our Chief Executive Officer. Mr. Zyuzin has over 21 years of experience in the coal mining industry and has a doctorate in coal mining technical sciences. Our Chief Operating Officer, Alexey Ivanushkin, has significant experience from his previous positions at Glencore International AG ("Glencore International") and as chief executive officer at Chelyabinsk Metallurgical Plant. The chief executive of Mechel Management, Vladimir Polin, has almost 24 years of production-floor, marketing and management experience in the metals business. Many of our directors and officers began their careers in technical positions in mines and manufacturing facilities and moved up to senior management positions over the course of their careers.

Business Strategy

Our goal is to expand our mining business, through organic growth as well as through acquisitions; to improve our steel segment margins through plant modernization, cost cutting and product portfolio optimization; to maintain our strong position as a producer of carbon and specialty long steel products in Russia; and to capitalize on the synergies deriving from our status as an integrated mining and metals group. We also intend to leverage our core businesses, where appropriate, with acquisitions of value-added downstream businesses.

The key elements of our strategy include the following:

Enhancing our position as a leading mining and metals group

We plan to develop our existing reserves base.

We intend to build on our substantial mining experience by developing our existing coal and iron ore reserves, particularly in order to sell more high-quality coking coal and iron ore concentrate to third parties. We plan to increase our coal production from 21 million tonnes in 2007 to 37 million tonnes in 2012, and maintain our iron ore concentrate production at the level of at least 5.0 million tonnes, with a possible increase in iron ore production by 10-15% by 2012 due to upgrades to the Korshunov Mining Plant (see " Capital Improvements Program"). We intend to develop the Shevchenko nickel and Voskhod chrome ore deposits in Kazakhstan and fully commission the Tikhvin ferrochrome plant in Russia, which we recently acquired, and integrate and combine these assets with our ferroalloy business.

We intend to develop our recently acquired coking and steam coal reserves owned by Yakutugol. Yakutugol, which has three producing mines as well as a license for the undeveloped Elga coal deposit, holds mining rights to reserves that we believe will solidify our position as a leading world producer of coking coal for years to come. We intend to seek additional mining licenses through acquisitions and/or participation in auctions and tenders in view of our strategic plans and market dynamics. In particular, we believe that obtaining additional mining rights near the Elga coal deposit would allow us to realize more fully the potential benefit of the private rail branch line we are constructing to deliver Elga's future coal production to market.

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

We plan to continue our approach of selectively investing in technology and capital improvements, including expanding the use of continuous casters (concasters) in our steel manufacturing facilities, optimizing our product catalog and cutting production costs. We have already built a solid presence in the construction steel business, including the second largest market share in rebar, according to Metall-Expert based on Russian production volumes in 2007. We are also a market leader in wire rod production and have a strong presence in the construction steel market. We are also one of Russia's primary producers of specialty steel, having the second largest market share, according to Chermet and Metall-Expert based on Russian production volumes in 2007. We intend to maintain these positions, including through the addition of new production capacity achieved by targeted, cost-effective capital expenditures. We plan to increase our long products output from 3.4 million tonnes as of the end of 2007 to 4.5 million tonnes as of the end of 2009, primarily at our Chelyabinsk Metallurgical Plant, a facility we intend to modernize by means of a $1.4 billion investment program over the next five years.

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

Our strategy involves finding acquisition and expansion opportunities that we believe will reinforce or complement our existing business lines. We actively monitor global mining and metals markets for new opportunities. In 2007, we completed a series of acquisitions that added a power segment to our group. In keeping with our long-term strategy of vertical integration, our strategy envisions realizing the maximum benefit from our own power generating facilities. We also intend to increase our presence and capability in ferroalloys, with the aim of positioning ourselves to be a leader in what we believe will be a high-margin business going forward. In 2007 and 2008, we also augmented our ferroalloy capabilities with our acquisition of Bratsk Ferroalloy Plant and Oriel, which includes the Tikhvin ferrochrome plant in Russia and the Voskhod chrome ore and Shevchenko nickel deposits in Kazakhstan. Once we have integrated and developed the assets from the Oriel acquisition, we expect to be self-sufficient not only in nickel, but chrome as well, which we believe will give us a rare competitive advantage among world steel producers.

An example of expansion in steel, a business line where we are already a well-established leader by production volume in Romania as well as Russia, is our April 2008 purchase of Ductil Steel, a company with two steel plants in Romania. We anticipate that the integration of Ductil Steel's production and marketing facilities will further optimize our existing production chain while reducing costs. We also expect that the acquisition will allow us to further develop our steel business, particularly in Romania and Eastern Europe, and will enhance our profile in Romania, where two of our other subsidiaries currently operate Mechel Targoviste and Mechel Campia Turzii.

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

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

Maintaining a high degree of vertical integration

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

Our recent expansion of our ferroalloy mining, processing and manufacturing capacity, with the acquisition of Bratsk Ferroalloy Plant (which produces ferrosilicon used in all steel manufacturing) and the Oriel assets (which we expect to more than double our capacity to mine and process ferroalloys used to make steel), is consistent with our strategy to maintain the potential to source our materials as our product focus shifts to higher-value-added steel products. We have expanded our power generation and distribution business into a separate financial reporting segment; we see expansion of our electric power capabilities not only as a diversification measure and a way to market another value-added product made from our coal, but also as a way to have more control over our energy efficiency and hedge against increases in the price of the electricity our facilities use. However, even as we expand and develop our internal sourcing capability we intend to adhere to our longstanding approach of purchasing inputs from third-party suppliers and selling products, including raw materials, to domestic

and international customers in a way that we believe creates the most advantageous profit opportunities for our group.

We plan to expand our logistical capabilities.

We intend to selectively expand our logistics capabilities, currently centered on our railway freight and forwarding company, and enhanced by our acquisitions of Port Posiet, Port Kambarka and Port Temryuk, strategic acquisitions designed to help us optimize our transportation expenses. We have engaged project engineers in preparation for the construction of a rail branch line to the Elga coal deposit in eastern Siberia.

We will leverage synergies among our core businesses.

In addition to synergies derived from our status as an integrated group, we believe that additional cost savings and opportunities will arise as we benefit from economies of scale and continue to integrate recent acquisitions, in particular by implementing improvements in working practices and operational methods. We regularly evaluate the manner in which our subsidiaries source their raw material needs and transfer products within the group in order to operate in the most efficient way, and we expect to identify and take advantage of further synergies among our core businesses.

Continuing to enhance our low-cost position in coal and improving steel segment margins

We aim to improve our steel segment margins through plant modernization, cost-cutting and product portfolio optimization.

We intend to further increase our efficiency and reduce our manufacturing costs by:

preserving cost advantages in our labor, raw materials and energy inputs;

achieving additional savings by fully integrating recent acquisitions into our operations;

producing higher value-added products, such as electricity and heat energy;

cultivating additional markets for steam coal; and

providing our mining and steel segments with their own energy resources.

Our ongoing plant modernization program is aimed at boosting productivity, increasing efficiency and reducing the environmental impact of our operations. In line with this strategy, in 2007 and early 2008 we completed a $17.0 million modernization of the concaster at Mechel Targoviste, commissioned a $12.3 million shaft furnace at Southern Urals Nickel Plant, finished a $29.0 million overhaul of a rebar rolling mill at Chelyabinsk Metallurgical Plant, made a $33.7 million extension of a sintering unit at Chelyabinsk Metallurgical Plant and completed a $22.0 million air separation complex at Chelyabinsk Metallurgical Plant. In continuation of this strategy in 2008 and beyond, our steel segment upgrade plans include projects to increase the production capacity of our continuous casting units at our Chelyabinsk Metallurgical Plant, modernize smelters and reduce electricity consumption at Bratsk Ferroalloy Plant and modernize the electric arc furnace at Izhstal. See " Capital Improvements Program."

We intend to maintain our position as a low-cost producer of coal, meeting the challenge posed by the macroeconomic trends of growth of the Russian economy, improvement in wages and Russian domestic demand for goods and services and the continued recent appreciation of the ruble against the U.S. dollar.

We will strive to maintain strong export sales.

We intend to maintain strong relationships with our significant international customers. Although we are focused on growing our market position within our domestic markets (of which Russia is by far the largest), export sales, which constituted 36% of our total sales revenues in 2007, allow us to diversify our sales and reduce our reliance on the Russian market in the event that it were to experience a downturn. In our key export markets our steam coal customers include cement companies such as Sumitomo Osaka Cement and Taiheiyo Cement Corporation in Japan, Holcim in Europe, and Oytash Ic Ve Dis Ticaret A.S., Akcansa Cimento Sanayi Ve Ticaret A.S. and Lafarge Aslan Cimento A.S. in Turkey; as well as power generating companies such as OVA Elektrik A.S. in Turkey, KOSEP in South Korea, and RWE, DONG Energy and Varna Power Plant in Europe. Our coking coal customers include ArcelorMittal, Kazzinc and Kazchrome in Kazakhstan, various metal manufacturing facilities in Ukraine, JFE, Nisshin, Kobe Steel, Mitsui Mining and Sumitomo Metal Industries in Japan, POSCO in South Korea, Global Coke and Saurashtra Fuel in India, and Capital Iron and Steel Plant in China. Another E.U. customer is the Solvay Sodi chemical plant in Bulgaria. In our key export markets our product pricing policy is generally based on the current market price, our price forecasts and actual supply-and-demand dynamics.

Continuing expansion in high-growth markets

Increasing coking coal sales to high-growth international markets.

We intend to continue to capitalize on our ability to serve fast-growing Asian and other international markets. In particular we view Japan, China, South Korea and India as countries to which our international growth strategy will be applied.

Developing our domestic and export steel sales capabilities

Our continued focus on the domestic Russian market is a key element of our strategy. We are particularly well-positioned to supply construction and infrastructure projects in Russia from our Chelyabinsk Metallurgical Plant located in the southern Urals. Not only do our products and prices tend to appeal to Russian customers, but the geographical reach of our production and logistics facilities and sales network give us a presence in the Russian heartland that facilitates sales to customers in Russia's remote regions. For example, our domestic trading subsidiary Mechel-Service has 27 branch warehouses in various cities in Russia.

Our extensive operations in Romania, consisting of four steel mills, serve as an attractive platform to expand our steel product sales to the important export markets of the E.U.

Implementation of these strategies is subject to a number of risks. See "Item 3. Key Information Risk Factors" for a description of these risks.

Our History and Development

General

We trace our beginnings to a small coal trading operation in Mezhdurechensk in the southwestern part of Siberia in the early 1990s. See "Item 5. Operating and Financial Review and Prospects The Reorganization." Since that time, through strategic acquisitions in Russia and abroad, Mechel has developed into a large, integrated mining and metals group, comprising coal, iron ore, nickel, chrome ore and limestone assets and coke, steel and ferroalloy production, with operations and assets in Russia, Romania, Bulgaria, Lithuania and Kazakhstan. With each of our acquisitions, we implement improved operational and management practices, and we are generally able to realize significant increases in production efficiency and volume with only modest, targeted capital expenditures. We also devote the management, technological and logistical resources necessary to integrate new acquisitions

into all aspects of our business, including the supply of raw materials and steel, production methodologies and sales and distribution.

Mining Business

Mining process

Coal. Coal is mined using open pit or underground mining methods. Following a drilling and blasting stage, a combination of shovels and draglines is used for moving coal and waste at our surface mines. Production at the underground mines is predominantly from longwall mining, a form of underground coal mining where a long wall of coal in a seam is mined in a single slice. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and impurities are removed. Coking coal concentrate is then transported to steel plants for conversion to coke for use in steel-making. Steam coal is shipped to utilities which use it in furnaces for steam generation to produce electricity. Our main products comprise coking and steam coal concentrate, steam coal, iron ore concentrate and ferronickel. Among the key advantages of our mining business is the high quality of our coking coal, the low level of volatile matters in our steam coal and our modern coal washing facilities, primarily built during the 1970s and 1980s, including facilities built as recently as 2001-2002.

Iron ore. All three of our iron ore mines are conventional open pit operations. Following a drilling and blasting stage, ore is hauled by truck and/or rail to the concentrator plant. At the concentrator plant, the ore is crushed and ground to a fine particle size, then separated into an iron concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded from approximately 29.8% elemental iron to a concentrate that contains about 62.9% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the concentrating plant. The concentrate is sent to disk filters which remove the water to a moist filter cake, and then to a concentrate storage facility. The filter cake is then shipped to customers by rail during warmer months, but in colder periods the filter must be dried further to prevent freezing in the rail cars. Korshunov Mining Plant operates its own drying facility.

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

Nickel ore from both mines is transported by rail to our nickel production plant in the city of Orsk, which also lies east of the southern extremity of the Ural Mountains, close to the border with Kazakhstan. At this plant, nickel ore is processed into sinter, which is smelted (with the addition of coke and limestone) in shaft furnaces and then put through oxygen converters to produce converter matte and tailings. Converter matte is then processed into ferronickel. Ferronickel is shipped via rail from Orsk to our Chelyabinsk Metallurgical Plant and to St. Petersburg or Kaliningrad for further international delivery.

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

Description of key products

Coking coal and coking coal concentrates. Coking coal is washed, low-phosphorous bituminous coal designated for further processing into coke in coking furnaces, which in turn is used in the blast furnace in the production of pig iron, a precursor of steel in integrated steel mills. Coking coals have high plasticity, meaning that they are amenable to being softened, liquefied and resolidified into hard and porous lumps when heated in the absence of air. From our Southern Kuzbass Coal Company we offer coking coal of marks OS (meager and caking), KS (coking and caking), KS (blend) and KO (coking and meager). We process coking coal into coking coal concentrate to reduce ash content and increase volatility and plasticity. We offer coking coal concentrate of marks OS (meager and caking), K (coking), KS (coking and caking), GZh (gas and fat) and Zh (fat).

Steam coal and steam coal concentrates. Steam coal has properties that make it suitable for use in thermal applications, including electric power generation. From our Southern Kuzbass Coal Company we offer steam coal of marks TS (lean and caking), SS3SS (weakly to non-caking coal of Category 3), KSOK1 (coking and caking meager of Category 11), GZhO (gas, fat and meager), TR (lean, slab-stone, big and nut-sized), T (lean), TOK1 (lean and oxidized of Group 1), TOK2 (lean and oxidized of Group 2), G (gas), Gok1 (gas and oxidized of Group 1) and Gok2 (gas and oxidized of Group 2). We offer steam coal concentrates of marks TPKO (lean, slab-stone, big and nut-sized), TMSSh (lean, petty, seed-sized and culm), TRK (lean, big and slab-stone), TKO (lean, big and nut-sized), TK (lean, big), TO (lean, nut-sized), TM (lean, petty), TMS (lean, petty and seed-sized), TSSh (lean, seed-sized and culm), TSh (lean, culm), TKO o.e. (lean, big and nut-sized, cleaned) and GZhO (gas, fat and meager).

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

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

Non-ferrous metals. From our Southern Urals Nickel Plant, we offer customers a B1-grade copper sulfate for use in industrial and chemical applications. Southern Urals Nickel Plant offers low-ferrous ferronickel, but only to export customers. We do not sell nickel products within Russia to companies outside our group.

Sales of mining products

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

Product	2007	2006	2005	2007	2006	2005
	in thousands of tonnes[1]			% of total sales, incl. intra-group		
Coking coal concentrate[2]	6,018	6,603	5,013	62%	73%	64%
Steam coal[2]	7,230	6,728	5,876	96%	100%	100%
Iron ore concentrate	2,358	2,885	2,876	51%	56%	64%
Nickel	13	12	11	79%	77%	87%

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

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

The following table sets forth revenues by product, as further divided between domestic sales and exports (including as a percentage of total mining segment revenues) for the periods indicated:

	2007		2006		2005	
Revenues	**Amount**	**% of revenues**	**Amount**	**% of revenues**	**Amount**	**% of revenues**
			(in millions of U.S. dollars, except for percentages)			
Coking coal concentrate	622.9	34%	518.3	40%	463.0	42%
Domestic Sales (%)	84%		74%		64%	
Export (%)	16%		26%		36%	
Steam Coal	436.3	24%	311.1	24%	273.5	25%
Domestic Sales (%)	13%		21%		12%	
Export (%)	87%		79%		88%	
Iron ore concentrate	213.6	11%	168.2	13%	167.1	15%
Domestic Sales (%)	68%		98%		69%	
Export (%)	32%		2%		31%	
Nickel	468.9	25%	258.7	20%	150.5	14%
Domestic Sales (%)	0%		0%		0%	
Export (%)	100%		100%		100%	
Other[1]	103.1	6%	49.3	4%	36.1	3%
Total	1,844.8	100%	1,305.6	100%	1,090.2	100%
Domestic Sales (%)	45%		51%		44%	
Export (%)	55%		49%		56%	

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

Marketing and distribution

Our mining products are marketed domestically primarily through Mechel Trading House and Mechel-Service and internationally through Mechel Trading AG's branch in Liechtenstein. The following table sets forth by percentage of sales the regions in which our mining segment products were sold for the periods indicated:

Region[1]	**2007**	**2006**	**2005**
Russia	44.4%	50.3%	44.1%
Other CIS	9.9%	10.3%	13.1%
Europe	33.5%	32.4%	31.6%
Asia	9.6%	4.4%	9.4%
Middle East	2.6%	2.6%	1.8%
	100.0%	100.0%	100.0%

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

In 2007, the five largest customers of our mining products were Glencore International (nickel, steam and coking coal), MMK (coking coal), EvrazResurs Trading House OOO (coking coal), Stratton

48

Metals Ltd ("Stratton Metals") (nickel) and Zapadno-Sibirsky Metallurgical Works OAO ("ZapSib") (iron ore), which together accounted for 50% of our mining segment sales.

Customer	% of total mining segment sales	Product	% of total product sales
Glencore International AG	18.9%	Nickel	69.2%
		Steam coal	4.7%
		Coking coal concentrate	0.6%
Magnitogorsk Metallurgical Plant OAO	8.1%	Coking coal concentrate	23.9%
EvrazResurs Trading House OOO	8.0%	Coking coal concentrate	23.7%
Stratton Metals Ltd	7.8%	Nickel	30.8%
Zapadno-Sibirsky Metallurgical Works OAO	7.6%	Iron ore concentrate	65.7%

Domestic sales

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

We ship our coking coal concentrate from our coal washing facilities, located near our coal mines and pits, by railway directly to our customers, including steel producers. Our largest domestic customer for our coking coal concentrate is MMK, accounting for 24% of our total coking coal concentrate sales and 8% of our total mining segment sales in 2007. We generally conclude sales contracts with domestic customers on an annual basis, and set our prices and volumes on a monthly basis by open tender.

A subsidiary of electric utility Novosibirskenergo OAO, the largest power producer in Siberia, is our largest domestic customer of steam coal, accounting for 4% of our total steam coal sales and 1% of our total mining segment sales in 2007. We ship our steam coal from our warehouses by railway directly to our customers, which are predominantly electric power stations. Our supply contracts for steam coal are generally concluded with customers on an annual basis. Some of our steam coal is consumed within the group; for example, sales of steam coal and middlings (lower-quality coal) from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were $9.8 million in 2007.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, ZapSib, accounted for 66% of our total iron ore concentrate sales and 8% of our total mining segment sales in 2007. We set our prices on a monthly basis.

Since 2002, Mechel Trading House has operated its wholly owned subsidiary, Mecheltrans, a railway freight and forwarding company. Mecheltrans owns its own rail rolling stock, consisting of 259 open cars and 193 pellet cars, leases 1,227 open cars and 20 pellet cars and has 2,280 open cars under equipment lease finance terms. The company transported domestically approximately 25.8 million tonnes of our cargo in 2007, approximately 29% of which was comprised of coal and iron ore.

Export sales

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

In the year ended December 31, 2007, the largest customer of our mining segment was Glencore International, accounting for 19% of our total mining segment sales. Glencore International's purchases from Mechel consisted of nickel (93%) steam coal (6%) and coking coal (1%). It was also our largest customer in the years ended December 31, 2006 and 2005, accounting for 23% and 14%, respectively, of the total mining segment sales in those years.

We are Russia's largest exporter of coking coal concentrate, according to RasMin, a private information and research company. Our exports of coking coal concentrate primarily go to Ukraine, Japan, Taiwan and Kazakhstan. In 2007, Rutek Trading AG was our largest foreign customer of coking coal concentrate, accounting for 4% of our total coking coal concentrate sales and 1% of our total mining segment sales by revenue. Shipments are made by rail and by ship.

Our exports of steam coal are primarily to Ukraine, Japan, Turkey, Belgium and Bulgaria, which together accounted for 65% of our total steam coal sales and 15% of our total mining segment sales by revenue in 2007. Our largest foreign customers of steam coal were Mechel Energy (a Swiss-registered international trading company in which we have a 50% stake) and Sumitomo Corporation. Steam coal is shipped to customers from our warehouses by railway and, in some cases, further by ship from Russian and Ukrainian ports.

Our Port Posiet processed 1.7 million tonnes of cargo, mostly coal, in 2007. We ship primarily our steam coal and coking coal concentrate to Japan from Port Posiet. The port's current capacity is approximately 2.5 million tonnes of annual cargo-handling throughput and 170,000-180,000 tonnes of warehousing capacity depending on coal type. The port's proximity to roads and rail links to key product destinations and transshipment points in China and Russia make it a cost-effective link in the logistical chain for bringing our Far East coal production to market.

In 2008, we are increasingly using spot contracts for export sales of coking and steam coal as compared to the 2007 financial year. Coal not shipped under spot contracts is sold under annual contracts.

We also sold iron ore concentrate to customers in China during 2007, which accounted for 32% of our total iron ore concentrate sales and 4% of our total mining segment sales in 2007. We ship iron ore concentrate to China by rail and by sea.

In 2007, we sold all of our ferronickel that we did not use internally to Glencore International and Stratton Metals. Our sales to Glencore International and Stratton Metals were approximately 69% and 31% of our total external ferronickel sales in 2007, respectively. In each case, the ferronickel is delivered by railway from our Southern Urals Nickel Plant to the port of St. Petersburg and it is then forwarded by the purchasers to their end users. Thus far in 2008 we have three nickel customers Glencore International, Stratton Metals, and Outokumpu Stainless OY. Outokumpu Stainless is a Finnish manufacturer of stainless steel products. We deliver the ferronickel to Outokumpu Stainless by railway to the Russian-Finnish border. In 2008 our sales to Glencore International, Stratton Metals and Outokumpu are expected to comprise approximately 50%, 20% and 30% of our external ferronickel sales, respectively.

Market share and competition

Coal

As a result of upstream acquisitions primarily by steel producers, based on publicly available information, we estimate that the number of Russian coal producers has decreased from about 250 in the mid-1990s to less than 60 in 2007. Based on our industry contacts and publicly available information, we believe that over the last few years, Russian coal mining companies have generally enjoyed a relatively stable customer base.

According to data from the Central Dispatching Department, in 2007 we were the largest coking coal producer in Russia, with a 21% share of total production by volume (counting Yakutugol's entire 2007 production) and we had a 9% market share with respect to overall Russian coal production by volume. We also controlled 26% of the coking coal washing facilities in Russia by capacity at the end of 2007, according to the Central Dispatching Department. The following table lists the main Russian

coking coal producers in 2007, the groups to which they belong, their coking coal production volumes and their share of total Russian production volume.

Group	Company	Coking coal production (thousands of tonnes)	% of coking coal production by volume
Mechel OAO	Southern Kuzbass Coal Company OAO	8,711	11.9%
	Yakutugol Holding Company OAO[1]	6,968	9.6%
	Mechel total	15,679	21.5%
Raspadskaya OAO	Raspadskaya ZAO	13,550	18.6%
Severstal OAO	Vorkutaugol OAO	6,453	8.8%
	Kuzbassugol Coal Company OAO	2,779	3.8%
	Vorgashorskaya Mine OAO	1,019	1.4%
	Yunyaginskoye OOO	504	0.7%
	Severstal total	10,755	14.7%
Sibuglemet Holding	Polusukhinskaya Mine OAO	3,161	4.3%
	Mezhdurechye OAO[2]	2,801	3.8%
	Antonovskaya Mine ZAO	1,532	2.1%
	Bolshevik Mine OAO	1,203	1.7%
	Sibuglemet total	8,697	11.9%
Evraz Group S.A.	Yuzhkuzbassugol Coal Company ZAO	6,742	9.2%
Kuzbassrazrezugol Coal Company OAO	Kuzbassrazrezugol Coal Company OAO	5,020	6.9%
SUEK OAO	SUEK OAO (Kemerovo region)	2,672	3.7%
Other	Other	9,832	13.5%
Total		72,947	100%

Source: Central Dispatching Department.

(1) Yakutugol has been consolidated in our financial results since October 19, 2007. In this table Yakutugol's entire 2007 production is included.

(2) We own 16.1% of Mezhdurechye.

According to data from the Central Dispatching Department, in 2007, we were the third largest steam coal producer in Russia in terms of volume, with a 5.7% share of total production (counting Yakutugol's entire 2007 production). The following table lists the main Russian steam

coal producers in 2007, the groups to which they belong, their steam coal production volumes and their share of total Russian steam coal production volume.

Group	Company	Steam coal production (thousands of tonnes)	% of steam coal production by volume
SUEK OAO	SUEK Kemerovo region	26,335	10.9%
	SUEK Krasnoyarsk region	28,543	11.8%
	SUEK Khakasian Republic	7,606	3.2%
	SUEK Irkutsk region	14,752	6.1%
	SUEK Zabaikalsky region	4,102	1.7%
	SUEK Primorsky region	4,436	1.9%
	SUEK total	85,774	35.6%
Kuzbassrazrezugol Coal Company OAO	Kuzbassrazrezugol Coal Company OAO	38,115	15.8%
Mechel OAO	Southern Kuzbass Coal Company OAO	9,786	4.1%
	Yakutugol Holding Company OAO[(1)]	3,880	1.6%
	Mechel total	13,666	5.7%
SDS-Ugol Holding Company OAO	Barzasskoye Partnership OOO	151	0.1%
	Chernigovets ZAO	5,144	2.1%
	SDS-Ugol total	5,295	2.2%
Evraz Group S.A.	Yuzhkuzbassugol Coal Company ZAO	5,234	2.2%
LUTEK OAO	LUTEK OAO	4,905	2.0%
Zarechnaya Mine OAO	Zarechnaya Mine OAO	4,400	1.8%
Priargunskoye Industrial Mining and Chemical Amalgamation OAO	Priargunskoye Industrial Mining and Chemical Amalgamation OAO	4,145	1.7%
Other		79,688	33.0%
Total		241,222	100%

Source: Central Dispatching Department.

(1) Yakutugol has been consolidated in our financial results since October 19, 2007. In this table Yakutugol's entire 2007 production is included.

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

Iron ore

The Russian iron ore market is generally characterized by high demand and limited sources of supply, with product quality as the main factor driving prices. According to the Rudprom mining industry association, the market is dominated by relatively few producers, with the top three mining groups representing over 70% of total production of iron ore concentrate.

The following table lists the main Russian iron ore concentrate producers in 2007, the groups to which they belong, their iron ore concentrate production volumes and their share of total Russian production volume.

Group	Company	Iron ore concentrate production (thousands of tonnes)	% of total production
Metalloinvest OOO	Lebedinsky GOK	21,007	20.9%
	Mikhailovsky GOK	17,313	17.2%
	Metalloinvest total	38,320	38.1%
Evraz Group S.A.	Kachkanarsky GOK	9,455	9.4%
	Vysokogorsky GOK	1,753	1.7%
	EvrazRuda	7,658	7.7%
	Evraz Group total	18,866	18.8%
Severstal-Resurs OAO	Kostomukshinsky GOK	10,422	10.4%
	Olenegorsky GOK	4,651	4.6%
	Severstal-Resurs total	15,073	15.0%
NLMK OAO	Stoylensky GOK	11,622	11.6%
Yevrokhim OAO	Kovdorsky GOK	5,242	5.2%
Mechel OAO	Korshunov Mining Plant	4,963	4.9%
Industrial Metallurgical Holding OOO	KMAruda	2,057	2.0%
Ural Mining-Metallurgical Company OAO	Bogoslovskoye RU	1,303	1.3%
Other		3,067	3.1%
Total		100,513	100%

Source: Rudprom mining industry association.

In addition, Sokolovsko-Sarbayskoye Mining Amalgamation, which is located in Kazakhstan and has an output capacity of 16.8 million tonnes of iron ore concentrate and 8.6 million tonnes of pellets per annum, has been a major supplier to MMK since April 2006.

Nickel prices and demand are driven by trends in the international markets.

Coal production

Our active coal mines are primarily located in the Kuznetsky basin, a major Russian coal-producing region, and in the Sakha Republic in eastern Siberia. The earliest production at our Kuznetsky basin mines was in 1953, and 1979 in our Sakha Republic mines.

Our recent license acquisitions include:

- in 2004 we acquired through auction a subsoil license for the Sibirginsky mine area of the Sibirginsky and Tomsky coal deposits, near our Sibirginsk Open Pit Mine;

in 2005 we acquired through auction two subsoil licenses for the Raspadsky open pit mine area of the Raspadsky coal deposit and the Berezovsky-2 area of the Berezovsky and Olzherassk coal deposits;

in 2005 we acquired through auction two subsoil licenses for the Erunakov-1 and Erunakov-3 coal mines near Kemerovo; and

in 2005 we acquired the right to explore for and develop coking coal under three subsoil licenses for the Sorokinsky, Razvedochny and Olzherassk coalfields in Kemerovo.

In October 2007, we acquired 75% less one share of Yakutugol, a coal producer located in eastern Siberia, in the Sakha Republic, increasing our stake to 100%. Yakutugol in turn owns the Kangalassk and Nerungrinsk open pit mines and the Dzhebariki-Khaya underground mine. Yakutugol extracts predominantly coking coal, as well as steam coal. The Nerungrinsk mine produces high-quality coking and steam coal. The Kangalassk mine produces steam coal that is sold as fuel for power plants in the Sakha Republic. The Dzhebariki-Khaya mine produces steam coal, most of which is sold to the state housing and municipal services administration. Yakutugol's output in 2007 was 10.8 million tonnes (2.7 million tonnes after the acquisition date) of coal consisting of 7.0 million tonnes (1.7 million tonnes after the acquisition date) of coking coal and 3.9 million tonnes (1.0 million tonnes after the acquisition date) of steam coal, and it sells most of its output to the Asian Pacific region, primarily Japan, South Korea and Taiwan, primarily pursuant to long-term contracts. We had previously acquired a blocking stake in Yakutugol of 25% plus one share in 2005.

Together with our acquisition of Yakutugol, we also acquired 68.86% of the shares of Elgaugol, which at the time of the acquisition held the license to the undeveloped Elga coal deposit in the Sakha Republic. As part of the auction conditions, we are required to meet certain operational milestones: (1) completing the legal permits for development of the Elga coal deposit by June 2009; (2) commencing construction of the mining plant by November 2009; (3) completing construction of the mining plant (including water supply) and commencing coal production by October 2010; (4) reaching an estimated annual coal production of 9.0 million tonnes by July 2013; and (5) reaching an estimated annual coal production of 18 million tonnes by July 2018. In addition, we undertook the obligation to build a rail branch line of approximately 315 kilometers in length, from the Ulak station on the Baikal-Amur Mainline up to the Elga coal deposit. See "Item 5. Operating and Financial Review and Prospects Contractual Obligations and Commercial Commitments." By special agreement with the Russian rail monopoly Russian Railways, we will operate this rail branch line as a private railway. After our acquisition of Elgaugol, the Elga mining license was transferred to Yakutugol effective upon the end of the first quarter of 2008. The Elga license area is part of a larger coal-bearing geological feature which up to now has been isolated from transportation links. The viability of the Elga project is dependent upon the construction of the rail branch line, as there are presently no transportation links by which to bring coal to market from the Elga license area.

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

Mine[1]	License Area	License-Holding Subsidiary	License Expiry Date	Status[2]	Area (sq. km)	Year Production Commenced
Krasnogorsk Open Pit	Tomsk, Sibirginsk	Southern Kuzbass Coal Company OAO	Dec 2013	In production	22.4	1954
Krasnogorsk Open Pit	Sorokinsk, Tomsk, Sibirginsk	Southern Kuzbass Coal Company OAO	Nov 2025	In production	2.8	2007
Lenin Underground	Olzherassk	Southern Kuzbass Coal Company OAO	Nov 2013	In production	10.0	1953
Lenin Underground	Olzherassk	Southern Kuzbass Coal Company OAO	Dec 2014	In production	3.6	1965
Olzherassk Open Pit	Raspadsk, Berezovsk, Olzherassk	Olzherassk Open Pit Mine OAO |(3)	Jan 2014	In production	9.3	1980
Olzherassk Open Pit	Raspadsk	Southern Kuzbass Coal Company OAO	Dec 2024	In production	3.5	2007
Olzherassk Open Pit[4]	Berezovsk-2, Berezovsk, Olzherassk	Southern Kuzbass Coal Company OAO	Dec 2024	In production	4.8	2007
New-Olzherassk Underground (formerly Invest-Coal)	Raspadsk	Southern Kuzbass Coal Company OAO	Dec 2021	In production	1.2	2006
New-Olzherassk Underground[4]	Razvedochny, Raspadsk	Southern Kuzbass Coal Company OAO	Nov 2025	In development	14.6	n/a
Sibirginsk Underground	Sibirginsk, Tomsk	Southern Kuzbass Coal Company OAO	Dec 2024	In production	5.9	2002
Sibirginsk Open Pit	Sibirginsk, Kureinsk, Uregolsk	Southern Kuzbass Coal Company OAO	Jan 2014	In production	17.7	1973
Tomusinsk Open Pit	Tomsk	Tomusinsk Open Pit Mine OAO	Dec 2012	In production	6.7	1959
Erunakovsk-1 Underground	Erunakovsk-1, Erunakovsk	Southern Kuzbass Coal Company OAO	Jun 2025	In development |(5)	8.4	n/a
Erunakovsk-3 Underground	Erunakovsk-3, Erunakovsk	Southern Kuzbass Coal Company OAO	Jun 2025	In development |(5)	7.1	n/a
Lenin Underground	Olzherassk	Southern Kuzbass Coal Company OAO	Nov 2025	In development |(5)	19.2	n/a
Nerungrinsk Open Pit	Nerungrinsk	Yakutugol OAO	Dec 2014	In production	15.3	1979
Kangalassk Open Pit	Kangalassk	Kangalassk Open Pit Mine OAO	Dec 2014	In production	7.7	1962
Dzhebariki-Khaya Underground	Dzhebariki-Khaya	Dzhebariki-Khaya Mine OAO	Dec 2013	In production	14.8	1972
Nerungrinsky Open Pit	Piatimetrovy coal-bed, Promezhutochny	Yakutugol OAO	Dec 2025	In development |(5)	30.0	n/a
Elga Open Pit	Elga	Yakutugol OAO	May 2020	In development	144.1	n/a

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

(2) "In production" refers to sites that are currently producing coal; "in development" refers to sites where preliminary work is being carried out in accordance with the terms of the relevant subsoil license, such as preparation and approval of the geological survey project (for the Olzherassk license area), geological surveys (for the Olzherassk, Razvedochny, Erunakovsk-3, Piatimetrovy coal-bed and Promezhutochny license areas), preparation and approval of construction project documentation (for the Elga license area) and construction (for the Erunakovsk-1 and Elga license areas).

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

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

(5) Not included in our mineral reserves.

In 1994, Sibirginsk Open Pit, a predecessor-in-interest of our subsidiary Southern Kuzbass Coal Company, received a coal license to develop resources of the Uregolsk license area. Approximately 1.1 million tonnes of coal have been mined by us since that date at the mine site in the license area.

Due to what we believe was a technical error made when the license was originally issued, there is uncertainty as to whether the Uregolsk license area includes a part of the mine site with resources of 37 million tonnes of coal (the "New Uregolsk license area"). Applicable Russian regulations lack a procedure for correcting license boundaries in the event of an error, and as recently as in 2006 and 2007, we carried out mining activities on the New Uregolsk license area in coordination with Rostekhnadzor. Moreover, in cooperation with us, the Kemerovo region Subsoil Use Agency ("Kuzbassnedra") decided to offer the New Uregolsk license area by auction. The auction was originally scheduled for April 25, 2008; however, Kuzbassnedra suspended the auction until June 26, 2008. Southern Kuzbass Coal Company has submitted a bid in the auction. Moreover, in May 2008, the Kemerovo region prosecutor's office opened a criminal case on the basis of Southern Kuzbass Coal Company's alleged unlawful usage of the resources on the New Uregolsk license area, but no person has been charged yet.

We and Southern Kuzbass Coal Company believe that the coal mining at the New Uregolsk license area was in compliance with applicable law. However, our subsidiary Southern Kuzbass Coal Company might face civil claims and its officers can be charged with criminal violations of relevant subsoil use laws. Our mineral reserves and deposits as set forth in this document as of January 1, 2008 do not include minerals within the New Uregolsk license area.

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

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

	2007		2006		2005	
	Tonnes	% of production	Tonnes	% of production	Tonnes	% of production
			(in thousands of tonnes)[1]			
Coking Coal						
Sibirginsk (Open Pit and Underground)[2]	2,181	20.9%	1,759	18.1%	2,822	32.9%
Tomusinsk Open Pit	2,385	22.9%	2,477	25.6%	2,607	30.4%
Olzherassk Open Pit	880	8.4%	1,613	16.6%	1,581	18.4%
Lenin Underground	2,077	20.0%	1,880	19.4%	1,573	18.3%
Sibirginsk Underground	1,188	11.4%	1,386	14.3%		
Olzherassk Underground			582	6.0%		
Yakutugol[3]						
Nerungrinsk Open Pit	1,708	16.4%				
Total Coking Coal	10,419	100.0%	9,697	100.0%	8,583	100.0%
Steam Coal						
Krasnogorsk Open Pit	5,630	52.2%	5,587	76.4%	5,278	74.7%
Sibirginsk (Open Pit and Underground)	1,469	13.6%	1,703	23.3%	1,649	23.4%
Olzherassk Open Pit	868	8.1%	26	0.3%	136	1.9%
Tomusinsk Open Pit	36	0.3%				
Olzherassk Underground	1,783	16.5%				
Yakutugol[3]						
Nerungrinsky Open Pit	827	7.7%				
Kangalassk Open Pit	35	0.3%				
Dzhebariki-Khaya Underground	127	1.3%				
Total Steam Coal	10,775	100.0%	7,316	100.0%	7,063	100.0%
Total Coal	21,194		17,013		15,646	
% Coking Coal		49.2%		57.0%		54.9%
% Steam Coal		50.8%		43.0%		45.1%

(1) Volumes are reported on a wet basis.

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

(3) Includes only post-acquisition production volumes.

Coal washing plants

We operate five coal washing plants located near our coal mines in Southern Kuzbass. Of the total coal feed enriched by our washing plants in 2007, approximately 84.5% (13.3 million tonnes) was supplied by our own mining operations, and 15.5% (2.45 million tonnes) from the nearby Raspadskaya underground mine (owned by Raspadskaya OAO) on a tolling basis. In 2007, the capacity of our washing plants in Russia accounted for 26% of the total domestic coking coal washing capacity in Russia by volume (taking into account the Yakutugol acquisition), according to the Central Dispatching Department.

Investments in coal companies

We own 16.1% of Mezhdurechye, a Russian coal producer whose production volume accounted for 4% of Russian coking coal output and 2% of Russian total coal output in 2007, according to the Central Dispatching Department.

Iron ore and concentrate production

Korshunov Mining Plant operates three iron ore mines, Korshunovsk, Rudnogorsk and Tatianinsk, as well as a concentrating plant located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of the city of Bratsk in eastern Siberia. The Korshunovsk mine is located near the concentrating plant. The Rudnogorsk mine is located about 85 kilometers to the northwest of the concentrating plant. The Tatianinsk mine is located about 10 kilometers to the north of the concentrating plant. All three mines produce a magnetite ore (Fe_3O_4). We acquired Korshunov Mining Plant in 2003.

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

License area	License Holder	License Expiry Date	Status	Area (sq. km)	Year Production Commenced
Korshunovsk	Korshunov Mining Plant	June 2009	In production	4.3	1965
Tatianinsk	Krasta ZAO[1]	June 2012	In production	1.3	1982
Rudnogorsk	Korshunov Mining Plant	June 2014	In production	5.1	1986
Krasnoyarsk	Korshunov Mining Plant	July 2015	Feasibility study[2]	3.0	n/a

(1) In February 2007, Korshunov Mining Plant transferred the Tatianinsk license to its wholly owned subsidiary Krasta ZAO.

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

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

	2007		2006		2005	
	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)
	(in thousands of tonnes)[1]					
Korshunovsk ore production	6,573	25.8%	6,193	26.2%	6,521	26.7%
Rudnogorsk ore production	5,754	35.6%	5,224	37.1%	4,104	35.3%
Tatianinsk ore production	468	29.9%	222	32.4%	707	30.2%
Total ore production	12,795	30.4%	11,639	31.2%	11,333	30.0%
Iron ore concentrate production	4,963	62.2%	4,976	62.6%	4,522	62.6%

(1) Volumes are reported on a wet basis.

Nickel ore and nickel production

Southern Urals Nickel Plant operates two open pit nickel ore mines, Sakhara and Buruktal, as well as a nickel production plant in Orsk. The Sakhara mine is located east of the Ural Mountains in Chelyabinsk region, about 375 kilometers north of Orsk. The Buruktal mine is located east of the southern tip of the Ural Mountains, in Orenburg region, close to the border with Kazakhstan. It is located 230 kilometers east of Orsk. We

acquired Southern Urals Nickel Plant in 2001.

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

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

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

	2007		2006		2005	
	Tonnes	Grade (% Ni)	Tonnes	Grade (% Ni)	Tonnes	Grade (% Ni)
	(in thousands of tonnes)[1]					
Sakhara ore production	1,236.1	1.13%	1,118.3	1.10%	1,113.7	1.14%
Buruktal ore production	1,591.3	1.05%	1,240.3	1.05%	901.6	1.06%
Total ore production	2,827.4	1.09%	2,358.6	1.07%	2,015.3	1.1%
Nickel production	17.1	89.91%	14.4	89.75	12.6	n/a

(1) Volumes are reported on a wet basis.

Limestone production

The Pugachev limestone quarry is an open pit mine located approximately 12 kilometers southeast of the city of Beloretsk in the Ural Mountains. The quarry was developed in 1952 to support Beloretsk Metallurgical Plant's steel making facilities, which are currently closed. The Pugachev limestone quarry is owned by our Beloretsk Metallurgical Plant, which we acquired in 2002. The current subsoil license is valid until January 2014.

The quarry produces both high-grade flux limestone for use in steel making and nickel smelting and aggregate limestone for use in road construction. The flux limestone and aggregate limestone are the same grade of limestone, but they are produced in different fraction sizes, which determines their suitability for particular use. In 2007, approximately 78.2% of the limestone produced at Pugachev was used internally, with 54.7% shipped to Chelyabinsk Metallurgical Plant, 19.5% shipped to Southern Urals Nickel Plant, 3.6% to Izhstal, 0.4% shipped to Mechel Materials OOO ("Mechel Materials"), 2.6% used as auxiliary and the remaining 19.2% sold to third parties. We are capable of internally sourcing 100% of the limestone requirements of our steel operations.

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

	2007	2006	2005
	(in thousands of tonnes)		
Limestone production	1,831.6	2,013.7	2,054.0

The decrease of limestone production volumes during from 2005 through 2007 period relates to the improvement in quality of limestone fractions produced and a corresponding decrease in our requirements for 40-80 millimeter and 20-40 millimeter limestone fractions. Producing extra tonnage is not economically justifiable, as it results in increased unutilized inventory. In 2007 the limestone quarry worked on more deep reprocessing of 0-20 millimeter limestone fractions extracted in prior periods and converting them to the 0-5 millimeter fraction, which is needed for our iron smelting plants. Correspondingly, processed limestone production (including reprocessing of already-mined inventory) increased, but extraction of limestone was performed based on our internal needs.

Mineral reserves

Our mineral reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our reserves, consisting of proven and probable reserves, meet the standards set by the SEC in its Industry Guide 7 and have been reviewed by Marston & Marston, independent mining engineers, as of January 1, 2008.

Russian subsoil licenses are issued for defined boundaries and specific periods, generally about 20 years. Our declared reserves are contained within the current license boundary. Additionally, to meet the legally viable requirement of the SEC, only material that is scheduled to be mined during the license period of existing subsoil licenses based on planned production was included in reserves.

Our subsoil licenses expire on dates falling in 2009 through 2025. These subsoil licenses, however, may be terminated prior to, or may not be extended at, the time of their expiration. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or renew necessary licenses and permits or fail to comply with the terms of our licenses and permits," "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business and results of operations" and " Regulatory Matters Subsoil licensing."

In addition to our mineral reserves, we have mineral deposits. Our mineral deposits are similar to our mineral reserves in all respects, except that the deposit is either (1) contained within the license boundary but is scheduled to be extracted beyond the license period or (2) is adjacent to but not contained within the license boundary. In both such cases, we intend to obtain the legal right to extract such deposit in the future. Mineral deposits may not ever be converted into mineral reserves if licenses are not renewed and/or extraction of such mineral deposits does not become economically viable in the future. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or renew necessary licenses and permits or fail to comply with the terms of our licenses and permits" and "Item 3. Key Information Risk Factors Risks Relating to the Russian Federation and Other Countries Where We Operate Legal Risks and Uncertainties Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity."

The table below summarizes our reserves as of January 1, 2008.

	Coal				
Summary	**Coking**	**Steam**	**Iron Ore**	**Nickel Ore**	**Limestone**
	(quantities in millions of tonnes)				
Reserves	226.5	283.8	50.9	12.0	17.4
Grade(%)	44.4%[(1)]	55.6%[(1)]	29.0%	1.0%	55.2%
Deposits	289.0	423.0	109.4	69.7	10.1
Grade(%)	40.6%[(1)]	59.4%[(1)]	27.9%	1.0%	55.2%

(1) Shows percentage of the type of coal.

Coal

As of January 1, 2008, we had coal reserves (proven and probable) totaling 510.3 million tonnes, of which approximately 44.4% was coking coal. The table below summarizes coal reserves by mine.

Coal Reserves	Coking Coal	Steam Coal	Heating Value[1][2]	% Sulfur[2]
	(quantities in millions of tonnes)[3]			
Krasnogorsk Open Pit		117.8	5,700	0.40%
Tomusinsk Open Pit	9.2	1.1	8,350	0.30%
Olzherassk Open Pit	14.6	21.5	8,171	0.25%
Olzherassk Underground		17.1	7,900	0.30%
Sibirginsk Open Pit	16.3	14.1	8,449	0.30%
Sibirginsk Underground	42.0		8,531	0.25%
Lenin Underground	12.6		8,467	0.29%
Nerungrinsk Open Pit	70.7	8.5	7,331	0.30%
Elga[4]	61.1	103.7	n/a	n/a
Total	226.5	283.8		
% of Total	44.4%	55.6%		

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

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

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

(4) Tonnages are for clean coal product. All other mines are reported on a run-of-mine basis.

n/a Not currently available.

As of January 1, 2008, we had coal deposits totaling 712.0 million tonnes, of which approximately 40.6% was coking coal. The table below summarizes coal deposits by mine.

Coal Deposits	Coking Coal	Steam Coal	Heating Value[1][2]	% Sulfur[2]
	(quantities in millions of tonnes)[3]			
Krasnogorsk Open Pit		103.9	5,771	0.40%
Tomusinsk Open Pit	7.3	1.9	8,350	0.30%
Olzherassk Open Pit	9.9	8.7	8,265	0.25%
Sibirginsk Open Pit	18.5	20.0	8,466	0.30%
Sibirginsk Underground	6.0		8,531	0.25%
Lenin Underground	14.7		8,476	0.31%
Nerungrinsk Open Pit	86.3	5.6	7,670	0.30%
Elga[4]	146.3	282.9	n/a	n/a

Coal Deposits	Coking Coal	Steam Coal	Heating Value[1][2]	% Sulfur[2]
Total	289.0	423.0		
% of Total	40.6%	59.4%		

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

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

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

(4) Tonnages are for clean coal product. All other mines are reported on a run-of-mine basis.

n/a Not currently available.

Elga, a coalfield for which our subsidiary Yakutugol holds a subsoil license, is an undeveloped property in a remote area of Siberia. Elga is capable of producing large quantities of export-quality coking and steam coal. The region was first discovered and explored in 1952, with the first geological surveys being conducted in 1954 through 1956, followed by prospecting surveys in 1961-1962. Exploration drilling was completed in 1998, and since exploration was completed, there have been several studies on Elga, including geology and resources, mine planning, railway construction and feasibility studies. We plan to mine Elga using open pit mining methods.

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

According to the terms of the subsoil license for the Elga coal deposit, we must construct a rail branch line from the Baikal-Amur Mainline to the coal deposits, approximately 335 kilometers in length, and this branch line must be operational by September 30, 2010. Previous detailed studies have estimated that it will take three to four years to construct such a branch line. The current construction schedule is very aggressive and may not be achievable. If this schedule is not met, the potential exists that our subsoil license for Elga will be suspended or terminated.

The viability of the Elga project is dependent upon the construction of the rail branch line referred to above. Construction of the branch line has begun but a detailed engineering study needs to be conducted to determine construction volumes for dirt moving and the total construction costs. For the reserve evaluation, railroad construction costs were extrapolated from 2005 figures.

A detailed feasibility study was completed on the Elga project in 2005. A new engineering study needs to be completed on the project to determine project capital and operating costs due to the significant cost inflation that has occurred in the mining industry since 2005. Increases in capital and operating costs have the potential to make the Elga project uneconomical because of the project's sensitivity to these costs.

The Elga project is very sensitive to market prices for coal because of the high initial capital costs and expected high ongoing operating costs. Coal prices will need to be near or above the current historically high price levels for several years in order for this project to have a positive net present value at a 12% discount rate, which was used for the reserves calculation.

Iron ore

As of January 1, 2008, we had iron ore reserves (proven and probable) totaling 50.9 million tonnes at an average iron grade of 29.0%. The table below summarizes iron ore reserves by mine.

Iron Ore Reserves[1]	**Tonnes[2]**	**Grade (% Fe)[3]**
	(in millions of tonnes)	
Korshunovsk	9.2	24.9%
Rudnogorsk	38.0	30.2%
Tatianinsk	3.7	26.2%
Total	50.9	29.0%

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

(2) Volumes are reported on a wet basis.

(3)

Metallurgical recovery is projected to be 70.2%.

As of January 1, 2008, we had iron ore deposits totaling 109.4 million tonnes at an average iron grade of 27.9%. The table below summarizes iron ore deposits by mine.

Iron Ore Deposits[1]	Tonnes[2]	Grade (% Fe)[3]
	(in millions of tonnes)	
Korshunovsk	47.4	24.9%
Rudnogorsk	62.0	30.2%
Total	109.4	27.9%

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

(2) Volumes are reported on a wet basis.

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

Nickel ore

As of January 1, 2008, we had nickel ore reserves (proven and probable) totaling 12.0 million tonnes at an average nickel grade of 1.0%. The table below summarizes nickel ore reserves by mine.

Nickel Ore Reserves[1]	Tonnes[2]	Grade (% Ni)[3]
	(in millions of tonnes)	
Sakhara	5.0	1.0%
Buruktal	7.0	1.0%
Total	12.0	1.0%

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

(2) Volumes are reported on a dry basis.

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

As of January 1, 2008, we had nickel ore deposits totaling 69.7 million tonnes at an average nickel grade of 1.0%. The table below summarizes nickel ore deposits.

Nickel Ore Deposits[1]	Tonnes[2]	Grade (% Ni)[3]

Nickel Ore Deposits[1]	Tonnes[2]	Grade (% Ni)[3]
	(in millions of tonnes)	
Buruktal	69.7	1.0%

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

(2) Volumes are reported on a dry basis.

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

Limestone

As of January 1, 2008, we had limestone reserves (proven and probable) totaling 17.4 million tonnes at 55.2% CaO.

Limestone Reserves[1]	Tonnes	Grade (% CaO)
	(in millions of tonnes)	
Pugachev	17.4	55.2%

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

As of January 1, 2008, we had limestone deposits totaling 10.1 million tonnes at 55.2% CaO.

Limestone Deposits[1]	Tonnes	Grade (% CaO)
	(in millions of tonnes)	
Pugachev	10.1	55.2%

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

Steel Business

Our steel business comprises production and sale of semi-finished steel products, carbon steel long products and specialty steel long products, carbon and stainless flat products, and value-added downstream metal products including hardware, stampings and forgings. Within these product groups, we are further able to tailor steel grades to meet specific end-user requirements. Our steel business is supported by our mining business, which includes coal (steam and coking coal), iron ore, nickel and limestone.

Our steel business has production facilities in Russia, Lithuania and Romania. Our acquisition of Ductil Steel in early 2008 represents further expansion of our production and marketing capacity into the E.U. The acquisition of Ductil is allowing us to optimize our existing production chain and maximize the efficiency of our intra-group sales structure, while at the same time reducing costs including import duties and logistics expenses associated with bringing billets to our Romanian plants from our Russian steel mills in our growing Romanian steel business.

Steel manufacturing process and types of steel

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

In BOF steel manufacturing, the principal raw material used to produce steel is iron ore and the metal is chemically smelted from the ore. Mined iron ore is crushed, concentrated and mixed with limestone and a small amount of coke. The mixture is sintered, crushed and then constantly fed, in alternating layers with more coke, into a blast furnace. At the same time natural gas and oxygen are injected into the furnace to reduce the iron, melt the mixture and obtain pig iron, an intermediate product with an iron content of 94-97%, a carbon content of 2-4% and 1-2% non-ferrous elements). Liquid pig iron is processed further in a BOF to produce molten steel with less than 2% carbon content. The molten steel, depending on the products in which it will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, and titanium ferroalloys and other components to give it special properties. Approximately 60% of the world's steel output is made in a BOF, most typically in large-scale plants that must produce 3-4 million tonnes per year to be economically efficient.

In EAF steel manufacturing, steel is generally produced from remelted scrap. Heat to melt the scrap is supplied from high-voltage electricity that arcs within the furnace between graphite electrodes and the scrap. This process is suitable for producing almost all steel alloys, including stainless steel and other specialty steel; however, it is limited in its use for production of high-purity carbon steel. Approximately 35% of world steel output is made in EAFs.

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

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

Description of key products

Coke. Coke is added to the blast furnace as a reducing agent for iron in the smelting process. It is a product prepared by pyrolysis (heating in the absence of oxygen) of low-ash and low-phosphorus coking coal. We offer customers coke from our Moscow Coke and Gas Plant OAO ("Moscow Coke and Gas Plant") and Mechel-Coke OOO ("Mechel-Coke").

Coking products. Coking products are hydrocarbon products obtained as a byproduct of the production of coke. We produce coke in our subsidiaries Moscow Coke and Gas Plant and Mechel-Coke. We offer our customers coal tar, naphthalene and other compounds. Worldwide, coal tar is used in diverse applications, including medications for treatment of psoriasis and dandruff, boiler fuel, food additives and pavement sealants. Naphthalene, a product of the distillation of coal tar, is best known as the active ingredient in mothballs. It is used by the chemical industry to produce chemical compounds used in insecticides, surfactants, synthetic dyes, solvents, plasticizers and other products.

Ferrosilicon. Ferrosilicon is used in ferrous metallurgy as a deoxidizer or as an alloying element for production of electrotechnic, spring wire, corrosion-resistant and heat resistant steel grades, or as a pig iron modifier. In nonferrous metallurgy, ferrosilicon is used as a reducing agent for production of nonferrous metals and alloys. We offer our customers ferrosilicon from our Bratsk Ferroalloy Plant.

Pig iron. Pig iron is a high-carbon form of iron produced from smelting iron ore in the blast furnace. It is brittle and is useful primarily as an intermediate product in the manufacturing of steel. Pig iron can typically also be processed to produce cast iron. We sell small volumes of pig iron from our Chelyabinsk Metallurgical Plant to third parties.

Semi-finished products. Semi-finished products typically require further milling before they are useful to end consumers. We offer semi-finished billets, blooms and slabs. Billets and blooms are precursors to long products and have a square cross section. The difference between billets and blooms is that blooms have a larger cross-section. Slabs are precursors to flat products and have a rectangular cross section. We offer our customers billets and blooms produced by Mechel Targoviste and Izhstal and slabs produced by Chelyabinsk Metallurgical Plant.

Long steel products. Long steel products are rolled products used in many industrial sectors, particularly in the construction and engineering industries. They include various types of bars (including concrete reinforcement bar, or rebar, and calibrated long steel products), wire rod and a wide range of profiles. Our long products are manufactured at Chelyabinsk Metallurgical Plant, Izhstal and Beloretsk Metallurgical Plant in Russia, and Mechel Campia Turzii and Mechel Targoviste in Romania.

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

Flat products. A flat product is a steel product that has been flattened by rolls with smooth surfaces and ranges of dimension, varying in thickness and width. Our flat products include hot- and cold-rolled sheets of various thicknesses, including stainless steel sheets. Our flat products are produced at Chelyabinsk Metallurgical Plant.

Stampings and forgings. Stampings are custom parts stamped from flat products. Forgings are specialty products made through the application of localized compressive forces to metal. Forged metal is stronger than cast or machined metal. Our forgings and stampings are offered on a made-to-order basis according to minimum batches depending on the products' sizes. Our product offerings include rollers and axles used in vehicle manufacturing; bearings, gears and wheels; tools and parts; industrial stencils and dies; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its Chelyabinsk branch. Izhstal and Mechel Targoviste also produce stampings and forgings.

Hardware. Hardware are products resulting from re-processing of wire rod and which are ready for use in manufacturing and consumer applications. Our hardware is produced at Izhstal, Beloretsk Metallurgical Plant and Vyartsilya Metal Products Plant in Russia, Mechel Campia Turzii in Romania and Mechel Nemunas in Lithuania. Our wide-ranging hardware product line includes spring wire; barbed wire; electrodes; wire for ball bearing manufacturing; precision alloy wire; rebar wire; metal cord; zinc-coated wire; copper-coated wire; various types of nails; cables specially engineered for the shipping, aerospace, oil and gas and construction industries; aerials for electric trams and buses; cables for passenger and freight elevators; general-purpose iron and steel straps and clips; woven wire cloth; and others.

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

	2007	2006	2005
	(in thousands of tonnes)		
Coke	3,886	2,570	2,589
Coking Products	129	49	85
Pig Iron	3,686	3,631	3,349
Ferrosilicon[(1)]	38		
Semi-Finished Steel Products, including:	1,705	1,785	1,777
Carbon and Low-Alloyed Semi-Finished Products	1,647	1,716	1,755
Long Steel Products, including:	3,040	2,529	2,510
Stainless Long Products	17	15	12
Alloyed Long Products	82	79	123
Rebar	1,637	1,358	1,349
Wire Rod	591	367	349
Low-Alloyed Engineering Steel	711	712	676
Flat Steel Products, including:	393	400	313
Stainless Flat Products	37	39	14
Carbon and Low-Alloyed Flat Products	356	361	299
Forgings, including:	80	75	79
Stainless Forgings	2	3	3
Alloyed Forgings	51	24	14
Carbon and Low-Alloyed Forgings	26	48	62
Forged Alloys	1	1	1
Stampings	95	101	104
Hardware, including:	689	611	558
Wire	536	466	394
Ropes	57	55	55

(1) Representing the ferrosilicon production of Bratsk Ferroalloy Plant since its acquisition in August 2007.

With the exception of our non-Russian subsidiaries, we manufacture almost all of our steel products using internally sourced coke, pig iron, raw steel and semi-finished steel products.

Sales of steel products

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

the periods indicated. Steel segment sales data presented in "Steel Business" does not include intercompany sales.

Revenues	2007 Amount	2007 % of revenues	2006 Amount	2006 % of revenues	2005 Amount	2005 % of revenues
	(in millions of U.S. dollars, except for percentages)					
Coke	248.8	6%	38.7	1%	49.2	2%
Coking Products	36.0	1%	10.3	0%	17.6	1%
Pig Iron	4.1	0%	14.1	0%	16.7	1%
Ferrosilicon[1]	29.0	1%				
Semi-Finished Products, including:	555.1	13%	397.5	13%	465.0	17%
Carbon and Low-Alloyed Semi-Finished Products[2]	446.5	10%	299.3	10%	282.1	10%
Long Steel Products, including:	1,830.1	42%	1,436.3	47%	1,311.1	48%
Stainless Long Products	44.8	1%	35.2	1%	44.4	2%
Alloyed Long Products	151.9	4%	131.1	4%	118.3	4%
Rebar	1,017.1	23%	753.0	25%	616.8	23%
Wire Rod	190.1	4%	202.3	7%	184.6	7%
Carbon and Low-Alloyed Engineering Steel	426.3	10%	314.7	10%	347.0	13%
Flat Steel Products, including:	421.8	10%	304.2	10%	219.5	8%
Stainless Flat Products	193.5	4%	125.2	4%	45.9	2%
Carbon and Low-Alloyed Flat Products	228.3	5%	178.9	6%	173.6	6%
Forgings, including:	164.7	4%	81.2	3%	93.5	3%
Stainless Forgings	26.5	1%	9.8	0%	11.0	0%
Alloyed Forgings	20.8	0%	11.9	0%	29.8	1%
Carbon and Low-Alloyed Forgings	86.9	2%	49.1	2%	45.8	2%
Forged Alloys	30.5	1%	10.3	0%	6.9	0%
Stampings	201.4	5%	151.7	5%	121.8	4%
Hardware, including:	603.4	14%	458.0	15%	373.8	14%
Wire	414.5	10%	303.3	10%	253.9	9%
Ropes	73.2	2%	60.6	2%	55.7	2%
Other	241.3	6%	150.8	5%	42.3	2%
Total	4,335.8	100%	3,042.8	100%	2,710.2	100%

(1) Representing the ferrosilicon sales of Bratsk Ferroalloy Plant since its acquisition in August 2007.

(2) Excludes revenues from slab sales.

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

Region[1]	2007	2006	2005
Russia	60.0%	56.9%	48.0%
Other CIS	5.8%	5.6%	5.0%
Europe	19.0%	28.7%	29.9%
Asia	1.0%	1.3%	8.6%
Middle East	12.9%	5.6%	4.7%
United States	0.6%	1.7%	2.1%
Other	0.7%	0.3%	1.7%
	100.0%	100.0%	100.0%

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

In 2007, our steel segment sales outside of Russia were principally to Europe and the Middle East. Sales in Europe accounted for 19% of our total steel segment sales. Middle East sales in 2007 accounted for 13% of our total steel segment sales.

In 2007, the five largest customers of our steel segment products were Glencore International (carbon and low-alloyed semi-finished products, other semi-finished products, reinforcement bars and wire rod), Balli Klockner Public Limited Company (carbon and low-alloyed semi-finished products, other semi-finished products and rebar), Metallokomplekt-M OOO (reinforcement bars and wire rods), MetallService OAO (carbon and low-alloyed flat products, carbon and low-alloyed engineering steel, stainless long and flat products), Sibpromsnab ZAO (carbon and low-alloyed flat products, stainless flat products and reinforcement bars), which together accounted for 16% of our steel segment sales.

Glencore International is the largest customer of our steel segment products. During 2007, 2006 and 2005, we sold $392.6 million, $282.6 million and $217.3 million of steel products to Glencore International, respectively, comprising 9.1%, 9.3%, and 8.0% of our total steel segment sales, respectively, during these periods. Glencore International resells these steel products primarily to customers in the Middle East and Asia. According to the shipping documentation provided by Glencore International, in 2007 and 2006, customers in the Middle East accounted for 86.5% and 51.6%, respectively, of these sales, and customers in Asia accounted for 9.6% and 27.0%, respectively, of these sales.

Beginning in November 2004, steel sales to Glencore International were made pursuant to a framework contract providing for the sale of a minimum of 180,000 tonnes of commodity carbon steel products per quarter at market-based prices. The framework contract with Glencore expired at the end of 2007. Our management is in the process of negotiating a new framework contract with Glencore. The products purchased by Glencore International consist of wire rod, rebar, billets, hot-rolled sheet and coil, which are then resold by Glencore International abroad, principally to purchasers in Asia and the Middle East.

Almost all of our steel segment export sales are made to independent distributors pursuant to framework contracts. These framework contracts generally specify certain ports to which we must deliver our products. The distributors take delivery of our products at these locations, and further on-sell the products to other distributors or end users. When these distributors take delivery of our products, we are provided in certain instances with documentation showing the further destination of

our products. We do not have control over the final destination of our products, contractually or otherwise.

Based on such documentation, we are aware that certain of our products are on-sold to certain countries that are subject to international trade restrictions or economic embargoes that prohibit U.S. incorporated entities, U.S. citizens and residents from engaging in commercial, financial or trade transactions with such countries, including countries such as Iran and Syria (the "Sanctioned Countries"). We estimate that approximately 6.7% of our total sales in 2007 were on-sold in the Sanctioned Countries, mostly by independent distributors to other distributors or end-users.

In addition, we have a very limited amount of direct sales to customers in the Sanctioned Countries, amounting to approximately 0.02% of our total sales in 2007. We intend to cease these sales in the future.

We are aware of governmental initiatives in the United States and elsewhere to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with the Sanctioned Countries. While we are not a U.S. person that would be subject to such regulations, we recognize that dealings with the Sanctioned Countries can have an adverse effect on our international reputation. Accordingly, we intend to work with independent distributors to include provisions in our future framework contracts that would allow us to consent to, or be consulted in advance in relation to, on-sales of our products to the Sanctioned Countries.

The following table sets forth information on our domestic and export sales of our primary steel product categories for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 25 to our consolidated financial statements in "Item 18. Financial Statements."

Products	2007	2006	2005
	(in millions of U.S. dollars, except for percentages)		
Coke	248.8	38.7	49.2
Domestic (%)	78%	95%	100%
Export (%)	22%	5%	%
Coking Products	36.0	10.3	17.6
Domestic (%)	64%	99%	89%
Export (%)	36%	1%	11%
Ferrosilicon[(1)]	4.1		
Domestic (%)	93%		
Export (%)	7%		
Pig Iron	29.0	14.1	16.7
Domestic (%)	97%	100%	11%
Export (%)	3%	0%	89%
Semi-Finished Steel Products	555.1	397.5	465.0
Domestic (%)	13%	11%	7%
Export (%)	87%	89%	93%
Long Steel Products	1,830.1	1,436.3	1,311.1
Domestic (%)	75%	76%	63%
Export (%)	25%	24%	37%
Flat Steel Products	421.8	304.2	219.5
Domestic (%)	79%	79%	57%
Export (%)	21%	21%	43%
Forgings	164.7	81.2	93.5
Domestic (%)	61%	48%	48%
Export (%)	39%	52%	52%
Stampings	201.4	151.7	121.8
Domestic (%)	80%	82%	84%
Export (%)	20%	18%	16%
Hardware	603.4	458.0	373.8
Domestic (%)	78%	76%	72%
Export (%)	22%	24%	28%
Other	241.3	150.8	42.3
Domestic (%)	88%	62%	64%
Export (%)	12%	38%	36%
Total	4,335.8	3,042.8	2,710.2
Domestic (%)	69%	67%	55%
Export (%)	31%	33%	45%

(1) Representing the ferrosilicon sales of Bratsk Ferroalloy Plant since its acquisition in August 2007.

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

The following table sets forth by percentage a breakdown of our shipment volumes of all products produced in Russia by industry sector within the Russian market in 2007.

Use by Industry	Metal Works, Hardware Plants	Pipe Factories	Construction	Engineering	Railway Construction, Repair	Power Generation	Other Industries[1]
Semi-Finished Steel Products	99%			1%			
Long Steel Products	3%	1%	73%	18%	1%		4%
Flat Steel Products	1%	11%	66%	21%			1%
Forgings	14%	54%		32%			
Stampings	1%		4%	54%			40%
Hardware	13%		19%	17%	9%	2%	40%

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

Marketing and distribution

We use flexible sales strategies that are tailored to our customers and the markets we serve. Mechel Trading House, headquartered in Moscow, coordinates our Russian sales and has four sales branch offices. Mechel Trading AG, based in Zug, Switzerland, coordinates exports of our steel products through its branch in Schaan, Liechtenstein.

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

Domestic sales

The Moscow headquarters of Mechel Trading House serves as the central domestic sales office for all our products. Our Moscow office provides additional customer services for, and collects feedback from, our largest and most important customers, and the information gathered is directly provided to senior management. The Moscow office, by virtue of its location, is also well suited to develop new customers by approaching large Russian manufacturers headquartered in Moscow or those companies that have centralized purchasing offices in Moscow. The Moscow office is also involved in responding

to tenders or requests for proposals, which is the most common method by which Russian companies procure the supply of raw materials.

In January 2006, we established Mechel Hardware OOO ("Mechel Hardware"), which in 2006 and 2007 sold and marketed products produced at Beloretsk Metallurgical Plant, Vyartsilya Metal Products Plant and Mechel Nemunas to Russian and other markets. In 2008, in order to optimize our product portfolio and save marketing and distribution costs, we decided to combine Mechel Hardware with Mechel Trading House. Currently we are in the process of reorganizing Mechel Hardware in order to merge Mechel Hardware with Mechel Trading House.

Our Russian steel production facilities are located in large industrial areas and have long-standing relationships some dating from the Soviet era with local end-user customers. Mechel Trading House has five branches and Mechel-Service has 27 branch warehouses throughout Russia to serve our customers. Our branches help us to develop and service our long-standing customer relationships by virtue of their proximity to both production and customers and thereby allow our local sales forces to provide highly specialized and technical sales and service support to our Russian customers.

Mechel Trading House has approximately 219 employees. Mechel-Service had approximately 500 employees as of December 31, 2007. Mechel Hardware had approximately 50 employees as of December 31, 2007.

Export sales

Most of the export sales in our steel segment are made to independent distributors, which then sell our products to end users. Our subsidiary Mechel Trading has sales offices in Liechtenstein, Belgium, Switzerland and Romania. At the end of 2007, Mechel Trading also had sales offices in the Philippines, Vietnam and Austria, which we have since closed and replaced with sales agents.

We also work with agents in 15 additional countries. At the end of 2007, we had sales agents in 12 countries; since year-end we have established arrangements with agents in the Philippines, Vietnam and Austria, the same countries where Mechel Trading previously had additional sales offices. We have an internationally oriented sales force which facilitates communications between our production facilities and the end users of our products, taking into account local and international business customs, including language requirements. Our use of a centralized international sales organization offers comprehensive and coordinated logistical and financial services to our export customers.

Our Romanian sales are carried out by our Romanian subsidiaries Mechel Campia Turzii and Mechel Targoviste.

We also sell steel products to wholesalers on a walk-in basis through large open and covered warehouse areas in the Port of Antwerp, Belgium. At this port, we primarily stock both rolled and forged bars, and intend to expand the product offering to cover other products such as wire rods and nails.

Mechel Trading and its branches and representative offices have approximately 54 employees.

Distribution

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

Market share and competition

In our core export markets, we primarily compete with Russian and Ukrainian producers. The leading global steel manufacturers have been increasingly focused on value-added and higher-priced

products. The principal competitive factors include price, distribution, product quality and customer service.

In the Russian market, we compete on the basis of price and quality of steel products, their added value, product range and service, technological innovation and proximity to customers. The Russian steel industry is characterized by relatively high concentration of production, with the six largest integrated steel producers, including us, accounting for 83% of overall domestic steel output in 2007.

Following is a brief description of Russia's other five largest steel producers:

Evraz Group S.A., which includes the steel producers Nizhny Tagil Metallurgical Works OAO, Zapadno-Sibirsky Metallurgical Works OAO ("ZapSib"), and Kuznetsky Metallurgical Works OAO, is Russia's largest steel manufacturer by volume on a consolidated basis, accounting for 18% of Russia's total rolled products output (including long products, flat products, semi-finished products, forgings and stampings) in 2007. Evraz Group focuses on the production of long products, including rebars, wire rods and profiled rolled products (such as rails, beams and channels). Evraz Group also controls iron ore producers Vanady Kachkanar GOK OAO and Vysokogorsky GOK OAO and coking coal producer Yuzhkuzbassugol Coal Company OAO, and has an equity investment in Raspadskaya OAO, which produces coking coal.

Severstal OAO had a 17% share by volume of Russian rolled steel production in 2007. The company specializes in flat products which constitute a significant part of its production. Severstal is the second-leading producer of flat products and controls 26% of Russia's total flat product production output. Domestic sales accounted for 72% of Severstal's output in 2007, with the oil and gas industry and automotive sector as its leading customers. Severstal also controls UAZ, a domestic off-road automobile manufacturer, and VorkutaUgol, which satisfies Severstal's coking coal requirements, and iron ore producers Karelsky Okatysh and Olenegorsky GOK.

Magnitogorsk Iron & Steel Works OAO accounted for 20% of the volume of Russian rolled steel production in 2007. MMK's product mix is comprised mostly of flat products, representing 86% of its commercial steel products output (including production of slabs) in 2007. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 49% of its output in 2007. Its production facilities are located in Magnitogorsk in the southern Urals.

Novolipetsk Metallurgical Works OAO had a 13% share by volume of Russian rolled steel production in 2007. The company produces primarily flat products (hot-rolled and cold-rolled), including galvanized products. NLMK exported 67% of its products in 2007. Domestically, NLMK's largest customers are in the construction and oil and gas industries, followed by companies in the automotive sector. NLMK also controls iron ore producer Stoylensky GOK. The company's steel facilities are located in Lipetsk, to the southeast of Moscow.

Metalloinvest Management Company OOO, which consists of Oskolsky Electric Metallurgical Works OAO ("OEMK") and Ural Steel OAO, had a 8% share of Russian rolled steel production. OEMK produces only long products, and Ural Steel produces both long and flat products. Metalloinvest exported 60% of its rolled steel production in 2007. The company's production facilities are located in the Central and Urals federal districts of Russia. Alisher Usmanov, one of Metalloinvest's main owners, also controls Russia's largest iron ore and pellets production facilities Lebedinsky GOK OAO and Mikhailovsky GOK OAO.

Source: Company websites; Chermet.

These six companies, including us, can be divided into two groups by product type. MMK, Severstal and NLMK focus mainly on flat products, while we, Evraz Group and Metalloinvest produce primarily long products. Mechel is one of the largest and most comprehensive producers of specialty steel and alloys in Russia, and accounted for 26% of total Russian specialty steel output by volume in 2007, according to Chermet and Metall-Expert. We are also the second largest producer of long steel products (excluding square billets) in Russia by volume, with significant market shares in both regular long steel products and specialty long steel products, according to Metall-Expert and Chermet.

In the Russian non-specialty long steel product category, our primary products and our market positions by production volume as of year-end 2007 were as follows, according to Metall-Expert:

Reinforcement bar ("rebar") In rebar, we compete in the 6-40 millimeters range. In 2007, the largest domestic rebar producers were Evraz Group (30%), Mechel (23%) and Severstal (15%). At present, the Russian domestic market for rebar is protected from Ukrainian imports by an import quota. The quota has been imposed by agreement between Russia and Ukraine as the result of a review of the import tariff which was in force until July 14, 2007.

Wire rod There were five major producers of wire rod in Russia in 2007: Mechel (32%), Severstal (22%), Evraz Group (19%), MMK (16%) and Nizhneserginsky MZ (13%). We produce some of the highest quality and widest ranges of wire rod (5-10 millimeters) among Russian producers.

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

According to Metall-Expert and Chermet, we were one of the leading producers in Russia of specialty long steel products (bearing, tool, high-speed and stainless steel) in 2007, producing 15% of the total Russian output by volume, and we had significant shares of Russian 2007 production volumes of stainless long products (33%), tool steel (26%) and high-speed steel (52%). We were also Russia's largest producer of stainless flat products, with a 70% share of domestic production by volume in 2007. According to the Prommetiz association of Russian hardware manufacturers ("Prommetiz"), we were the second largest producer of hardware in Russia in 2007 with a 25% share in domestic production by volume, following Severstal (30%) and followed by MMK (19%). For products in which we specialize, however, our share was substantially higher. For example, we had a 58% share of Russia's spring wire production and a 46% share of Russia's high-tensile wire production by volume during 2007.

The following tables set forth additional information regarding our 2007 market shares in Russia for various categories of steel products.

All long products (excluding square billets)

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Evraz Group S.A.	7,072	32%
Mechel OAO	2,958	13%
Metalloinvest Management Company OOO	2,278	10%
Severstal OAO	2,020	9%
MMK OAO	1,754	8%
Other	6,140	28%
Total	22,224	100%

Source: Metall-Expert.

Long products Wire rod[(1)]

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Mechel OAO	934	32%
Severstal OAO	648	22%
Evraz Group S.A.	549	19%
MMK OAO	462	16%
Nizhneserginsky Metal and Hardware Plant ZAO	300	10%
Other	15	1%
Total	2,909	100%

Source: Metall-Expert.

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

Long products Rebar

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Evraz Group S.A.	1,657	30%
Mechel OAO	1,231	23%
Severstal OAO	807	15%
Nizhneserginsky Metal and Hardware Plant ZAO	644	12%

Manufacturer	Production	Market share by production volume
MMK OAO	590	11%
Other	510	9%
Total	5,439	100%

Source: Metall-Expert.

Stainless steel

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Mechel OAO	36.8	70%
Severstal OAO	6.8	13%
VMZ Red October	6.6	13%
MMZ Hammer & Sickle	2.4	5%
Other	0.2	0%
Total	52.8	100%

Source: Metall-Expert.

Hardware

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Severstal-Metiz OAO	640	30%
Mechel OAO	520	25%
MMK-Metiz OAO	396	19%
Evraz Group S.A.	237	11%
Maksi-Group OAO	210	10%
Other	105	5%
Total	2,108	100%

Source: Prommetiz, manufacturers' data.

Hardware Spring wire

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Mechel OAO	48.5	58%
Severstal-Metiz OAO	30.2	36%
MMK-Metiz OAO	4.9	6%
Total	83.5	100%

Source: Manufacturers' data.

Hardware High-tensile wire

Manufacturer	Production	Market share by production volume
	(in thousands of tonnes, except for percentages)	
Mechel OAO	58.4	46%
Severstal-Metiz OAO	57.6	46%
MMK-Metiz OAO	9.9	8%
Total	125.9	100%

Source: Manufacturers' data.

Raw materials

The principal raw materials we use in the making of steel are coke (produced from coking coal), iron ore, nickel, ferrous scrap and limestone. We supplied 74% of our own group-wide coking coal needs in 2007, although our total coking coal production volume exceeded our group's needs. We process coking coal concentrate into coke at Mechel-Coke, which was spun-off from Chelyabinsk Metallurgical Plant in 2006, and Moscow Coke and Gas Plant, which we acquired in 2006. Coke is used both in our steel-making operations at Chelyabinsk Metallurgical Plant and other sites and in our nickel-smelting operations at Southern Urals Nickel Plant. In 2007, we produced and internally used 2.6 million tonnes of coke in our production facilities and produced and sold another 1.3 million tonnes of coke to third parties. Our coal also fuels our power generation business: in 2007, Southern Kuzbass Coal Company supplied to Southern Kuzbass Power Plant 521,000 tonnes of steam coal and middlings for power generation.

Our steel-making operations use iron ore in the form of pellets, sinter, concentrate and sinter ore. The ultimate form of the iron ore feed into the steel making process, however, consists of pellets and sinter only. In 2007, our steel-making operations used 5.9 million tonnes of iron ore feed, approximately 32% in the form of pellets and 68% in the form of sinter, and we internally sourced 42% of our total iron ore feed requirements during this period. Our Korshunov Mining Plant supplied us with 2.5 million tonnes of iron ore concentrate in 2007, which accounted for 91% of our total iron ore concentrate needs in this period. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. We purchase most of the remaining part of our iron ore feed, mainly in the form of pellets, from Russian domestic suppliers such as Lebedinsky GOK and Karelsky Okatysh under annual contracts on market terms.

In 2007, we used approximately 3,700 tonnes of nickel in the production of stainless and other specialty steels. We sourced approximately 66% of our nickel requirements in 2007 from our nickel mining and smelting operations at Southern Urals Nickel Plant. We source other nickel grades from Norilsk Nickel, Ufaleinikel and other smaller nickel producers.

Our steel making technology is primarily based on the basic oxygen furnaces, accounting for over half of our raw steel production. Ferrous scrap represents approximately 36% of feedstock, and we are approximately 44% self-sufficient in this raw material, sourcing the balance from various scrap traders. Electric arc furnaces are the primary method of steel-making at Mechel Targoviste.

In March 2006, we acquired Mechel Recycling, a Chelyabinsk-based metal scrap processing company, in line with our policy of ensuring the steel segment's self sufficiency in raw materials. Mechel Recycling processes scrap steel that we melt in our steel manufacturing facilities' electric arc furnaces and reprocess into steel products.

We internally source all of our limestone requirements from our Pugachev quarry. In 2007, we used approximately 1.0 million tonnes of limestone in the production of steel.

Steel making requires significant amounts of electricity to power electric arc furnaces and rolling mills and to convert coal to coke. In 2007, our steel operations consumed approximately 3.4 billion kWh of electricity, of which 2.4 billion kWh was used at Chelyabinsk Metallurgical Plant, 500 million kWh was used at other Russian facilities and 500 million kWh was used at our Eastern European plants. Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Mechel-Energo have power co-generation facilities, which produced 3.3 billion kWh of electricity for internal consumption in 2007, yielding 29% self-sufficiency overall for our group (including mining operations), which consumed 6.6 billion kWh of electricity in 2007. The balance was purchased from local utilities. Aside from Southern Kuzbass Power Plant, which runs on steam coal, our power-generating facilities work on blast furnace and coke gas, which are by-products of our steel-making operations, and natural gas, which we purchase from Gazprom. In 2007, we consumed 5.9 billion cubic meters of blast furnace gas, 1.6 billion cubic meters of coke gas and 2.4 billion cubic meters of natural gas.

Large amounts of water are also required in the production of steel. Water is used to cool the steel, to carry away waste, to help produce and distribute heat and power and to dilute liquids. One of the principal sources of water is rivers, and many of our facilities recirculate a portion of water used for their production needs. For example, Chelyabinsk Metallurgical Plant sources 9% of its water needs from a local river and the rest from recycled water. Vyartsilya Metal Products Plant sources 100% of its water needs from a local river. Southern Urals Nickel Plant sources 41% of its water needs through recycling, 56% from a local river and the rest by purchasing from third parties. Mechel Targoviste sources 86% of its production water needs from a local river and the rest is purchased from third parties.

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

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

Steel production facilities

The main manufacturing processes at Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant, Urals Stampings Plant, Izhstal, Bratsk Ferroalloy Plant, Mechel Campia Turzii (with the exception of wire-drawing workshop No. 3, as described below) and Mechel Targoviste are ISO 9001:2000 certified through 2009. Wire-drawing workshop No. 3 of Mechel Campia Turzii is ISO 14001 certified through 2008.

Chelyabinsk Metallurgical Plant

Our raw steel production in Russia takes place at Chelyabinsk Metallurgical Plant. Chelyabinsk Metallurgical Plant is an integrated coke and gas, sintering production, blast furnace, BOF/EAF steel mill and rolling production. It produces semi-finished steel products, flat and long carbon and specialty steel products. Its customer base is largely comprised of customers from the construction, engineering, hardware and ball-bearing industries. We acquired Chelyabinsk Metallurgical Plant in 2001.

The plant sources all of its coking coal needs from Southern Kuzbass Coal Company and from Yakutugol and most of its iron ore needs from our Korshunov Mining Plant and a majority of its nickel needs from our Southern Urals Nickel Plant. In 2006, coke production and specialty steel production

were separated from Chelyabinsk Metallurgical Plant into separate entities which are wholly owned subsidiaries of Chelyabinsk Metallurgical Plant. In August 2007, ownership of Chelyabinsk Metallurgical Plant's specialty steel operations was transferred to the Chelyabinsk branch of Urals Stampings Plant, though for presentation purposes Chelyabinsk Metallurgical Plant's specialty steel operations are presented in this section.

Chelyabinsk Metallurgical Plant's (including the Chelyabinsk branch of Urals Stampings Plant) principal steel and wire production lines include a BOF workshop equipped with three converters; three EAF workshops equipped with electric arc ovens, including two large ovens of 100 and 125 tonnes, respectively; small capacity of constant and alternating-current furnaces, vacuum induction and plasmic furnaces; vacuum arc and electroslag remelting furnaces; five comprehensive steel treatment machines; two steel vacuum-degassed machines, an argon-oxygen refining machine; four continuous billet-casters; blooming with continuous rolling mill for 200-320 millimeter and 80-180 millimeter billets; six long product mills for 8-190 millimeter diameter round bar and 75-156-millimeter square bar, 6.5-10 millimeter wire rod, rebar steel, bands and shaped beams; a hot-rolled flat product workshop with a thick sheet continuous rolling mill for hot-rolled sheets of up to 1,800 millimeters wide and up to 20 millimeters thick; a semi-continuous rolling mill for up to 1,500 millimeters wide and up to 6 millimeters thick hot-rolled coils; a cold-rolled product workshop for 0.3-4 millimeter cold-rolled stainless sheet; a forged piece hammer workshop; and a forging and pressing workshop equipped with five presses and forging machines of 1,250-2,000 tonnes. Also we have at our Chelyabinsk Metallurgical Plant, together with Mechel-Coke, eight coking batteries, seven sintering machines and three blast furnaces. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Chelyabinsk Metallurgical Plant's principal production areas.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Sintering	5,800	76.3%	700
Pig Iron	3,800	97.0%	
Steel-making	5,100	98.7%	
Rolling	4,730	91.5%	
Forging and pressing	100	84.2%	
Coking	3,100	86.5%	

Chelyabinsk Metallurgical Plant produced, together with its wholly owned subsidiary Mechel-Coke, 5.0 million tonnes of raw steel, 4.3 million tonnes of rolled products and 2.7 million tonnes of coke in 2007.

In the second half of the year ended December 31, 2007 we began an upgrade of Chelyabinsk Metallurgical Plant's arc-furnace melting shop No. 6 to increase continuous slab production capacity to 1.2 million tonnes per year with the assistance of Danieli and Campagnia Officine Meccaniche SpA ("Danieli"), an international equipment engineering company.

Izhstal

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

Izhstal's principal production lines include five EAFs of 30 tonnes each; aggregate "ladle stove" and ladle vacuum machine with oxygen decarburization; three open hearth furnaces of 130-135 tonnes each; blooming machine for 100-220 millimeter square billets; three medium-sized long products rolling mills for 30-120 millimeter round bars, 30-90 millimeter square bars, bands and hexagonal bars; and one continuous small long products wire mill for 5.5-29 millimeter round, 12-28 millimeter square and 12-27 millimeter hexagonal light sections, reinforced steel and bands. It also has a hardware workshop, equipped with various drawing mills, a pickling line and a forging workshop, equipped with a number of sledgehammers and press-cutters. The following table sets forth the capacity and the capacity utilization rate for each of Izhstal's principal production areas.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Steel-making	700	70.7%	
Rolling	1,000	33.5%	
Hardware	98	39.8%	
Forging and stamping	60	34.0%	

Izhstal produced approximately 523,344 tonnes of raw steel, 335,150 tonnes of rolled products, 39,048 tonnes of hardware and 20,386 tonnes of stampings and forgings in 2007.

In 2007, Izhstal's total output was reduced as part of our strategy to focus on high-quality products. Other reasons for Izhstal's low capacity utilization rates were reduced customer orders and the inefficiency of running high-capacity industrial processes like blooming mills at a low utilization rate. To improve Izhstal's efficiency, at the end of 2007 we initiated major upgrades at the Izhstal mill, including the installation of a new modern electric arc furnace with a total capacity of 40 tonnes and an out-of-furnace processing complex and new concasting machine, reconstruction of rolling mill No. 250 and the disposal of old equipment, including open-hearth furnaces. The upgrade process will be completed in 2009 and is expected to result in significant reductions in steel consumption in rolled product manufacturing, and in consumption of natural gas, electric power, and metal for subsequent processing, and improvements in product quality to meet current international standards.

Beloretsk Metallurgical Plant

Beloretsk Metallurgical Plant is a hardware plant in the city of Beloretsk, in the southern Ural mountain range, that produces wire rod and a broad range of hardware from semi-finished steel products supplied by Chelyabinsk Metallurgical Plant. Its customers are largely from the construction and engineering industries. We acquired Beloretsk Metallurgical Plant in 2002.

Beloretsk Metallurgical Plant's principal production lines include a steel-rolling workshop equipped with a wire mill for production of wire rod of 5.5-12 millimeters in diameter and a number of hardware workshops equipped with drawing, winding, unwinding, rewinding, polishing and rope machines and thermal treatment ovens. In 2007, we commissioned two modern drawing mills and invested $3.1 million to improve product quality, increase output, reduce production costs, and increase profitability. Due in part to this investment, in February 2008 we succeeded in introducing an advanced technology to produce stabilized reinforcing wire for prestressed concrete structures used in the

construction industry. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Beloretsk Metallurgical Plant's principal production areas.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Rolling	560	99.8%	
Hardware	417	99.6%	43

Beloretsk Metallurgical Plant produced a total of 620,295 tonnes of rolled steel products in 2007, including 204,845 tonnes of wire rod and 415,451 tonnes of hardware.

Vyartsilya Metal Products Plant

Vyartsilya Metal Products Plant is a hardware plant in the Karelian Republic, an administrative region in northwestern Russia near the Finnish border, that produces low carbon, welding and structural wire, zinc-plated nails, and steel and polymeric-coated nets, from wire rod supplied by Chelyabinsk Metallurgical Plant and Beloretsk Metallurgical Plant. The plant's customers are largely from the construction, automotive and furniture industries. We acquired Vyartsilya Metal Products Plant in 2002.

Vyartsilya Metal Products Plant's principal production facilities include drawbenches and nail-making and mesh-weaving machines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Vyartsilya Metal Products Plant's principal production area.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Hardware	83	99.4%	

Vyartsilya Metal Products Plant produced 82,510 tonnes of hardware in 2007.

Urals Stampings Plant

Urals Stampings Plant is Russia's largest producer of stampings from specialty steels and heat-resistant and titanium alloys for the aerospace, oil and gas, heavy engineering, railway transportation, power and other industries. Urals Stampings Plant sources its specialty steel needs from Chelyabinsk Metallurgical Plant. We acquired Urals Stampings Plant in 2003.

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

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Stampings and forgings	100	74.4%	

Urals Stampings Plant produced 74,432 tonnes of specialty steel stampings in 2007.

82

Mechel Targoviste

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

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

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Steel-making	527	90.9%	73
Forging and pressing	37	9.6%	
Rolling	780	59.5%	
Hardware	67	9.0%	

Mechel Targoviste produced 478,859 tonnes of raw steel and 473,872 tonnes of rolled products in 2007.

In 2007, Mechel Targoviste experienced low rolling capacity utilization rates due to efforts to reduce production costs and increase quality, as well as due to the inefficiency of running its blooming process, involving high-capacity machinery with high power requirements, at low capacity utilization levels.

Mechel Campia Turzii

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

Mechel Campia Turzii's principal production lines include several hardware workshops equipped with drawing, nail-making and zinc-plating machines. The following table sets forth the capacity, the

capacity utilization rate and the planned increase in capacity for each of Mechel Campia Turzii's principal production areas.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Rolling[(1)]	300	71.1%	
Hardware	100	89.6%	

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

Mechel Campia Turzii produced 150,414 tonnes of rolled products and 89,581 tonnes of hardware in 2007.

One arc-furnace melting workshop and two rolling mills have were taken off-line in the course of our reorganization of the production line at Mechel Campia Turzii. Currently, we are developing our long-term plant development program at Mechel Campia Turzii, including such major projects as installation of an arc-furnace melting shop, construction of a continuous casting machine and modernization of rolling and hardware production processes to increase the plant's profitability and capacity utilization.

Mechel Nemunas

Mechel Nemunas is a Lithuanian hardware plant that produces wire, calibrated steel products, nails, rods and nets. Its customers are primarily from the construction, engineering and furniture industries. We acquired Mechel Nemunas in 2003.

Mechel Nemunas's principal production facilities include drawing mills, and nail-making, threading, net-weaving, net-wicking and contact-welding machines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Mechel Nemunas's principal production area.

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Hardware	65	99.6%	

Mechel Nemunas produced 64,472 tonnes of hardware products in 2007.

Bratsk Ferroalloy Plant

Bratsk Ferroalloy Plant is the largest enterprise in Eastern Siberia producing high grade ferrosilicon. Ferrosilicon is used in the steelmaking industry for manufacturing carbon and stainless steel deoxidizers of most kinds of steel grades or alloying elements for production of insulating, acid-proof and heatproof steel grades, or pig iron modifier, as well as reducing agents for production of nonferrous metals and alloys. Ferrosilicon is a primary raw material for alloyed steels produced by Chelyabinsk Metallurgical Plant. We acquired Bratsk Ferroalloy Plant in 2007.

The main production facilities of the plant include four ore-thermal ovens with a capacity of 25 megavolt-amperes.

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

Production Areas	Capacity in 2007	Capacity Utilization Rate in 2007	Planned Increase (2008-2010)
	(in thousands of tonnes, except for percentages)		
Ferrosilicon production	90	96.6%	45

Bratsk Ferroalloy Plant produced 89,600 tonnes of ferrosilicon in 2007, or 14% of the Russian market by production volume, according to Metall-Expert.

Oriel Resources plc

Oriel's mining assets include the Voskhod chrome deposit and the Shevchenko nickel deposit, both located in northwestern Kazakhstan. Each of the projects has been explored and has been licensed by the government of Kazakhstan, but has not begun producing commercial volumes of ore. The Tikhvin ferrochrome smelting plant in Russia, which commenced production in April 2007 using imported ore, will be linked with Voskhod once Voskhod starts producing ore.

The Tikhvin smelting plant is designed to receive and smelt chrome ore into high carbon ferrochrome for use predominantly in the stainless steel industry. The other raw materials used in the ferrochrome smelting process are metallurgical coke as a reducing agent and a quartzite flux. The plant is situated in the small town of Tikhvin, 200 kilometers southeast of St. Petersburg, Russia.

Trade restrictions

Trade restrictions in the form of tariffs, duties and quotas are widespread in the steel industry. However, we are less exposed than most other Russian steel producers to these trade restrictions as restrictions on Russian exports have mainly been directed against flat products, whereas most of our exports consist of long products, such as wire rods and rebar. In addition, the abolition by the Russian government of steel export duties in 2002 has also effectively improved exports of Russian steel.

In May 2008, Russia's Minister of Industry and Trade invited us, as well as other major Russian steel producers such as Metalloinvest, Evraz, Severstal, MMK and NLMK, to develop a joint position on the Russian government's proposal to impose tariffs on exports of steel from Russia or to abolish import tariffs on imported steel products. The text of potential changes to laws, regulations or policies has not been made publicly available. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We face numerous protective trade restrictions in the export of our steel segment products, and we may face export duties in the future."

In 2007, approximately 20.0% of our steel segment export sale revenues were derived from sales of steel products that were subject to import restrictions. We describe below the main applicable trade restrictions in our key markets.

European Union

Our steel sales to the E.U. in 2007 were $824.8 million, or 19.0% of our total steel segment revenues. The Russian government and the E.U. have an export quota system in place whereby Russian exports to the E.U. are limited to certain stipulated quantities for each product category. The quota by product category is distributed among Russian producers based on a procedure jointly developed by the Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Industry and Energy of the Russian Federation. Effective May 13, 2008, these ministries have been reorganized into the Ministry of Economic Development and the Ministry of Industry and Trade, respectively, with the old Ministry of Industry and Energy's energy functions being transferred to a new Ministry of

Energy and the trade functions of the old Ministry of Economic Development and Trade being transferred to a new Ministry of Industry and Trade. The procedure provides that for each product category, a company's export quota allocation is calculated on the basis of shipments by the company of the particular product over the previous years to the E.U. market (which is given a 70% weight), and on the company's market share in domestic production of the particular product (which is given a 30% weight). After the quotas are calculated, the Russian Ministry of Industry and Trade then confirms quota allocations, and the Russian Ministry of Economic Development issues export licenses for these quotas. In 2007, the quota covered approximately 53% of our steel segment products exported to the E.U.

In 2007, the total E.U. quota for Russian steel was 2,904 million tonnes, and we received 306,927 tonnes of the total quota. As quotas are granted by product category, usage of our individual quotas varied. For example, usage of our 2007 quota for long products other than rebar and wire rod was 97%, while usage for our wire rod quota was 74% due to late submission of the additional export quota volumes at the end of 2007. The E.U.-Russia Steel Agreement for 2008 provides for the total Russian quota to be 3,031 million tonnes. Our quota is set at approximately 315,444 tonnes, which includes 19,983 tonnes for flat products and 295,461 tonnes for long products. Our supply of wire rod to Mechel Nemunas, our hardware plant in Lithuania, is also subject to the E.U. export quota system, and our quota for that plant is 61,500 tonnes for 2008. We also received an additional quota in 2008 for supplying wire rod to our Romanian subsidiary Mechel Campia Turzii of 44,000 tonnes. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We face numerous protective trade restrictions in the export of our steel products."

In addition, an antidumping E.U. import duty in the amount of 50.7% was applicable to steel ropes and cables manufactured by our Beloretsk Metallurgical Plant until October 2007. After a review procedure conducted by the E.U., in October 2007 this duty was reduced to 36.2% and imposed for a period of five years.

In February 2008 an antidumping duty in the amount of 17.8% was imposed on ferrosilicon exported to the E.U. produced by our Bratsk Ferroalloy Plant for five years. In 2007, Bratsk Ferroalloy Plant's ferrosilicon exports represented 7% by volume of its total production. See " Steel Business Sales of steel products."

United States

The United States has a quota system in place with respect to imports of hot rolled flat-rolled carbon quality steel and thick steel plate. The intergovernmental quota agreements provide for quotas and reference prices on Russian exports of these products to the United States. A distribution of quotas between specific Russian producers and the execution of export licenses is carried out in accordance with the same procedure that applies to exports to the E.U. market. There are no trade restrictions applicable to the export of our Romanian or Lithuanian products to the United States.

Power Business

Southern Kuzbass Power Plant

Southern Kuzbass Power Plant is located in the city of Kaltan in Kemerovo region, which is south of Russia's coal-rich Kuzbass district. It has a total installed capacity of 554 MW and installed heat capacity of 506 Gcal/h as of December 31, 2007. The electricity output of the plant for the year ended December 31, 2007 was 1,968,287 kWh. The heat power generated by the plant for the year ended December 31, 2007 was 717,282 Gcal. We acquired Southern Kuzbass Power Plant in 2007.

Southern Kuzbass Power Plant uses steam coal as fuel, which is steadily supplied to it from local sources, including our Southern Kuzbass Coal Company. In 2007, it consumed 521,000 tonnes of steam coal and middlings from Southern Kuzbass Coal Company.

The generation facilities of Southern Kuzbass Power Plant are listed below.

Generation Unit No.	Year of Manufacture	Month and year of commissioning at Southern Kuzbass Power Plant	Installed Capacity (MW)	Electricity production in 2007 (kWh)
VK-50-2 LMZ	1950	April 1951	53	89,461
VK-50-2 LMZ	1950	November 1951	53	83,684
VK-50-2 LMZ	1950	August 1952	53	276,935
VK-50-2 LMZ	1952	February 1953	53	224,074
T-115-8,8 LMZ	1996	December 2003	113	175,227
T-88/106-90 LMZ	1953	July 1954	88	536,645
VK-50-2 LMZ	1954	December 1954	53	75,127
T-88/106-90 LMZ	1953	September 1956	88	507,134
Total Installed Capacity			554	1,968,287

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

Southern Kuzbass Power Sales Company

Southern Kuzbass Power Sales Company is located in Kemerovo region and is the largest power distributing company in Siberia. Its distributed power volume in 2007 amounted to 25.2 billion kWh. We acquired Southern Kuzbass Power Sales Company in 2007. The addition of Southern Kuzbass Power Sales Company, along with Southern Kuzbass Power Plant, allows us to improve the utilization of our existing power co-generation capabilities and provides a base for growth in the power industry.

Southern Kuzbass Power Sales Company sells and purchases electricity both on the wholesale and retail markets. The company sells electricity to the public, to social infrastructure companies, housing and public utilities and large industrial companies. Due to its area of operation, its primary industrial customers are in the mining and processing industries. It supplies electricity to end-consumers directly and also through four regional agents.

The company is appointed as "guaranteeing supplier" in Kemerovo region. For a discussion of guaranteeing suppliers, see " Regulatory Matters Regulation of electricity market Sales of electricity Retail electricity market."

Toplofikatsia Rousse

Toplofikatsia Rousse is a power plant located on the bank of the Danube River in close proximity to the harbor of Rousse, Bulgaria. We acquired 49% of Toplofikatsia Rousse in December 2007. Currently, the plant generates 290 MW, which is below its installed capacity of 400 MW. Pursuant to our capital investment program, we are upgrading the equipment at Toplofikatsia Rousse to fully utilize its installed capacity. The plant has a total heat capacity of 35 Gcal/h and uses steam coal as fuel, some of which is supplied to it from our coal mines in Russia. The plant has approximately 700 employees.

Capital Improvements Program

We plan to spend $5.2 billion for our capital expenditures program for the five year period of 2008-2012. The capital expenditures program is primarily targeted at expansion of the mining segment and increasing the efficiency of the steel segment. The split is approximately $3.0 billion in mining, approximately $2.2 billion in steel and approximately $42 million for the power segment.

In the mining segment we will direct approximately $170 million to the development of the Erunakovskaya deposit, which is expected to produce approximately three million tonnes of coking coal annually; and approximately $659 million will be directed to the development of brownfield license areas covering approximately one billion tonnes of predominantly coking coal. Other major mining projects are also aimed at improving the quality of the coal we mine, and include the construction of Sibirginskaya coal washing plant for approximately $65 million. In the iron ore business, we will invest approximately $205 million in Korshunov Mining Plant.

Steel segment projects are targeted at improving efficiency while maintaining existing output, and will be mainly focused on Chelyabinsk Metallurgical Plant, our core steel-producing facility. In 2007 we completed construction of two additional continuous casters for approximately $250 million in line with our target to raise the proportion of steel produced through continuous casting from the current level of 37% to 91% in 2012. Other projects include a new coking battery and reconstruction of rolling facilities.

The following table sets out by segment and facility the major items of our capital expenditures currently in progress or expected to be commenced in 2008-2010.

	Planned increase in capacity and/or other improvement	Approximate total planned expenditures[(1)] (in millions)	Year of project launch	Estimated year of completion
Mining Business				
Southern Kuzbass Coal Company				
Construction of Erunakovsk-1 Underground Mine	Increasing steam coal output capacity to 4.0 million tonnes per annum	$ 170.0	2006	2012
Construction of underground mine at Olzherassk-Glubokaya field (1st line)	Increasing coal output capacity to 1.5 million tonnes per annum	$ 75.0	2007	2012
Construction of Sibirginsk Underground Mine (2nd line)	Increasing coal output capacity from 1.7 to 3.2 million tonnes per annum	$ 117.0	2006	2010
Construction of Sibirginsk coal washing plant	Increasing coal washing capacity by 4.0 million tonnes of steam coal per annum	$ 65.0	2007	2010
Development of load-haul-dump system	Increasing product shipment capacity	$ 85.0	2007	2012
Maintenance expenditures	Maintaining current coal mining and processing capacity	$ 265.0	2008	2012

Yakutugol					
Production increase	Increasing raw coal output capacity to 13 million tonnes per annum; increasing output capacity of Nerungrinsk coal washing plant	$	90.0	2008	2011
Maintenance expenditures	Maintaining current coal mining and processing capacity	$	102.0	2008	2012
Construction of rail branch to Elga coal deposit	Providing access to deposit	$	1,362.0	2008	2010
Korshunov Mining Plant					
Maintenance expenditures	Maintaining current iron ore output capacity	$	90.0	2008	2012
Bating of Korshunov Open Pit Mine	Increasing iron-ore reserves by 58 million tonnes	$	114.6	2008	2011
Southern Urals Nickel Plant					
Maintenance expenditures	Maintaining current nickel production capacity	$	46.0	2008	2012
Modernization of ferronickel production technology	Increasing ferronickel production, decreasing production costs and environmental impact	$	300.0	2009	2012
Steel Business					
Bratsk Ferroalloy Plant					
Maintenance expenditures	Maintaining current output capacity	$	27.0	2008	2012
Construction of two new furnaces	Increasing ferrosilicon production capacity by 90,000 tonnes per annum	$	175.0	2009	2011
Chelyabinsk Metallurgical Plant					
Maintenance expenditures	Maintaining current output capacity	$	242.5	2008	2012
Construction of blast furnace No. 3	Decreasing pig iron production costs. Increasing total pig iron production capacity to 4.5 million tonnes per annum. Decommissioning obsolete equipment	$	200.0	2009	2012
Reconstruction of oxygen converter shop; phased replacement of three converters	Increasing steel production capacity by 400,000 tonnes per annum	$	110.0	2008	2012

Construction of concasting unit No. 5 with outside-furnace processing complex in oxygen converter shop; concasting complex 4, 2nd line, phase 1	Increasing production capacity of continuous casting unit by 1.0 million tonnes per annum	$	160.0	2008	2010
Construction of continuous-casting plant No. 6 in arc-furnace shop No. 2 with outside-furnace processing complex	Increasing concaster capacity by 600,000 tonnes per annum	$	90.0	2009	2012
Construction of rolling facilities in blooming building	Introducing new types of rolled products for construction industry with a design capacity of 1.0 million tonnes per annum	$	410.0	2008	2011
Modernization of slab concaster with outside-furnace processing complex; arc-furnace shop No. 6. Reconstruction of continuous-casting machine; installation of ladle furnace and vacuum vessel	Increase of capacity to 1.2 million tonnes per annum with increase of stainless steel production	$	70.0	2007	2009
Reconstruction of sheet-rolling mill No. 2300/1700	Increase in thick sheet production capacity by 0.4 million tonnes per annual; production of corrosion-resistant steel	$	90.0	2008	2010
Reconstruction of cold rolling mill for stainless steel	Modernization of cold rolling mill for increasing rolled stainless steel production capacity	$	35.0	2008	2010
Izhstal					
Maintenance expenditures	Maintaining current output capacity	$	53.4	2008	2012
Modernization of arc-furnace melting facilities; renovation of arc-furnace shop No. 23	Increase of arc-furnace steel melting capacity to 480 thousand tonnes per annum and steel quality improvements; decommissioning older open-hearth furnace	$	110.0	2007	2009
Reconstruction of mill No. 250	Increase in capacity to 300 thousand tonnes per annum and increase of quality of rolled products	$	30.0	2007	2009
Mechel Targoviste					
Modernization of medium-grade rolling mill	Increase of profiled rolling capacity and quality improvement	$	20.0	2007	2008

Stamping, forging and hardware companies (Urals Stampings Plant, Beloretsk Metallurgical Plant, Mechel Campia Turzii, Mechel Nemunas)					
Modernization of hardware and forging and stamping equipment	Production increase, introduction of new products (wire, rope, nails and forged pieces); increase in quality of forgings and stampings; decrease in production costs	$	105.0	2007	2012
Coke and Chemical Production					
Mechel-Coke, Moscow Coke and Gas Plant					
Maintenance expenditures	Maintaining current output capacity	$	60.0	2008	2012
Other					
Port Posiet					
Reconstruction of Port	Construction of modern port with the aim to increase export sales; ability to handle Panamax vessels with a displacement of 60,000 tonnes	$	120.0	2007	2010
Southern Kuzbass Power Plant					
Maintenance expenditures	Modernization and upgrading of equipment	$	41.6	2008	2012
Mechel Materials					
Grinding-mixing complex in Chelyabinsk	Cement production complex with a production capacity of 1.6 million tonnes per annum	$	103.0	2008	2012
Mechel-Service					
Expanding warehouse and service center network	Construction of facilities in Chelyabinsk, Ufa, Vidnoye and Ekaterinburg	$	82.0	2008	2012

(1) We estimate that approximately $81.9 million of the aforementioned planned expenditures for these projects have been made as of December 31, 2007. In 2007, we spent $833.5 million in total for capital expenditures.

Research and Development

We maintain research programs at the corporate level and at certain of our business units to carry out research and applied technology development activities. At our corporate level, we have the Department of Long-Term Planning and Technical Development, which is responsible for research and development and employed a total of 11 researchers as of December 31, 2007, as well as the Department of Ferroalloys Production Development, which employed a total of seven researchers as of December 31, 2007. In the course of our research we also contract with third-party consultants and Russian research institutions.

In addition to these activities performed at our corporate level, each of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant, Southern Urals Nickel Plant, Izhstal, Mechel Targoviste and Yakutugol have specialized research divisions with a total of 479 researchers involved in the improvement of existing technologies and products.

Our research and development expenses in the years ending December 31, 2007, 2006 and 2005 were not significant.

Insurance

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. At present, our facilities are not insured, and we have no coverage for business interruption or loss of key management personnel. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and inability to rebuild in a timely manner or at all."

Our Russian subsidiaries maintain obligatory insurance, which includes insurance for third-party liability (including ecological) for injuries and losses caused by accidents at dangerous industrial sites, insurance for third-party liability for injuries caused during construction and operation of hydrotechnical installations and automobile owners' liability insurance. Some of our Russian subsidiaries purchase insurance for automobiles, real estate and cargo, but it is not done in all instances and for all significant assets. Mechel Trading Ltd, Zug, Schaan Branch maintains comprehensive insurance, including marine, liability (including products liability) and trade indemnity insurance. Mechel Campia Turzii maintains insurance that covers its employees, property, plant and equipment. Mechel Targoviste maintains insurance that covers its employees and capital assets.

Regulatory Matters

We describe below certain regulatory matters that are applicable to our Russian operations.

Licensing of operations

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

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

medical operations; and

transportation activities.

These licenses and permits are usually issued for a period of five years and may be extended upon application by the licensee. Licenses for the use of natural resources may be issued for shorter or longer periods. Upon the expiration of a license, it may be extended upon application by the licensee, but usually subject to prior compliance with regulations.

Regulatory authorities maintain considerable discretion in the timing of issuing licenses and permits. The requirements imposed by these authorities may be costly, time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Further, private individuals and the public at large possess rights to comment on and otherwise participate in the licensing process, including through challenges in the courts. For example, individuals and public organizations may make claims or applications to the Federal Agency for Subsoil Use regarding subsoil abuse, damage to the subsoil and general environmental issues. The Federal Agency for Subsoil Use is required by law to review such claims and applications and to respond to those who file them. The agency can initiate further investigation in the course of reviewing claims and applications, and such investigations can lead to suspension of the subsoil license if the legal grounds for such suspension are identified in the course of the investigation. Additonally, citizens may make claims in court against state authorities for failing to enforce environmental requirements (for example, if a breach by the licensee of its license terms caused damage to an individual's health, legal interests or rights), and pursuant to such a claim the court may order state authorities to suspend the subsoil license. Accordingly, the licenses we need may not be issued, or if issued, may not be issued in a timely fashion, or may impose requirements which restrict our ability to conduct our operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of our licenses and permits, some of our companies must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil licensing

In Russia, mining minerals requires a subsoil license from the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The primary law regulating subsoil licensing is the Federal Law "On Subsoil," dated February 21, 1992, as amended (the "Subsoil Law"), which sets out the regime for granting licenses for the exploration and production of mineral resources. The Procedure for Subsoil Use Licensing, adopted by Resolution of the Supreme Soviet of the Russian Federation on July 15, 1992, as amended (the "Licensing Regulation"), also regulates the exploration and production of mineral resources. According to both the Subsoil Law and the Licensing Regulation, subsurface mineral resources are subject to the joint jurisdiction of the federal and regional authorities.

Among different licenses required for mining minerals in Russia, the two major types of licenses are: (1) an exploration license, which is a non-exclusive license granting the right of geological exploration and assessment within the license area, and (2) a production license, which grants the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined licenses, which grant the right to explore, assess and produce minerals from the license area. A subsoil license defines the license area in terms of latitude, longitude and depth.

There are two major types of payments with respect to the extraction of minerals: (1) periodic payments for the use of subsoil under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The Subsoil Law-mandated payments are not material to our mining segment's results of operations. The minerals extraction tax is calculated as a percentage of the value of minerals extracted. Currently the tax rates are 4% for coal, 4.8% for iron ore and 8% for nickel. In 2007, we incurred minerals extraction taxes in the amount of $42.2 million, which is included in the income statement as production related overheads. See note 22 to our consolidated financial statements in "Item 18. Financial Statements."

The term of the license is set forth in the license. Prior to January 2000, exploration licenses could have a maximum term of five years, production licenses a maximum term of 20 years, and combined exploration, assessment and production licenses a maximum term of 25 years. After amendments to the Subsoil Law in January 2000 and in August 2004, exploration licenses still have a maximum term of five years; in the event that a prior license with respect to a particular field is terminated early (for example, when a license is withdrawn due to non-usage of the licensed subsoil), a production license may have a one year term until a new licensee is determined, but is generally granted to another user for the term of the expected operational life of the field based on a feasibility study; and combined exploration, assessment and production licenses can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licenses issued prior to January 2000, but permit licensees to apply for extensions of such licenses for the term of the expected operational life of the field in accordance with the amended Subsoil Law. The term of a subsoil license runs from the date the license is registered with the Russian Federal Agency for Subsoil Use.

Issuance of licenses

Subsoil licenses are issued by the Federal Agency for Subsoil Use. Most of the currently existing production licenses owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganized in the course of post-Soviet privatizations; or (2) tender or auction procedures held in the post-Soviet period. The Russian Civil Code, the Subsoil Law and the Licensing Regulation contain the major requirements relating to tenders and auctions. The Subsoil Law allows production licenses to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration license at its own expense during the exploration phase.

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of a production license in order to complete the production from the subsoil plot covered by the license or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the license and the relevant regulations.

In order to extend a period of a subsoil license, a company must file an application with the federal authorities to amend the license.

Order of the Ministry of Natural Resources No. 439-R, dated October 31, 2002, recommends that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license.

The factors that may, in practice, affect a company's ability to obtain the approval of license amendments (including extensions) include (1) its compliance with the license terms and conditions; (2) its management's experience and expertise relating to subsoil issues; and (3) the relationship of its management with federal and/or local governmental authorities, as well as local governments. For a description of additional factors that may affect Russian companies' ability to extend their licenses, see "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or renew necessary licenses and permits or fail to comply with the terms of our licenses and permits." See also "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business and results of operations" and " Item 3. Key Information Risk Factors Risks Relating to the Russian Federation and Other Countries Where We Operate Legal Risks and Uncertainties Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity."

Maintenance and termination of licenses

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

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

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

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

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a license termination or the refusal to re-issue an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases prior to termination the

licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three month period, no termination or other action may be taken.

Land use rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate land use rights. Land use rights are needed and obtained for only the portions of the license area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code, companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of perpetual use; (3) lease; or (4) right of free use for a fixed term.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law "On Introduction of the Land Code," dated October 25, 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use by January 1, 2010 either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority acting as owner of the land. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry The potential implementation by the Russian government of a law requiring Russian companies to purchase or lease the land on which they operate may have a material adverse effect on our financial condition."

Our mining subsidiaries generally have a right of perpetual use of their plots or have entered into long-term lease agreements. Under Russian law a lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any land lease agreement for a term of one year or more must be registered with the relevant state authorities.

We generally own, lease or have a right of perpetual use of the land on which our steel production facilities are located.

Environmental legislation

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the formation, distribution and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection," dated January 10, 2002, as amended (the "Environmental Protection Law"), as well as by a number of other federal, regional and local legal acts.

At a Russian government press conference on June 3, 2008, it was announced that a new draft law aimed at improving environmental regulation is being prepared and would be submitted to the State Duma by October 1, 2008. The Russian government intends to improve the state environmental monitoring system, to develop a better allocation of functions among state environmental agencies on the federal and regional levels, as well as to increase fines for companies' noncompliance with environmental laws and regulations. In addition, a proposal was outlined to create a comprehensive system regulating the levels of permissible environmental impact and a differentiated system of water,

air and soil quality standards, as well as to improve the technical regulation system to raise the energy efficiency of industry. No proposals or drafts have been made publicly available. See "Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our operating results."

Pay-to-pollute

The Environmental Protection Law and other Russian environmental protection legislation establish a "pay-to-pollute" regime administered by federal and local authorities. "Pay-to-pollute" (or payments for environmental pollution) is a form of mandatory reimbursement to the Russian government of damage caused to the environment.

The Russian government has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain temporary approval for exceeding these statutory limits from Rostekhnadzor, depending on the type and scale of environmental impact. As a primary condition to such approval, a plan for the reduction of the emissions or disposals to the standard legal maximum limits must be developed by the company and cleared with Rostekhnadzor. The emission reduction plan is generally required to be implemented within a specific period. If, by the end of that period, a company's discharges of pollutants are still in excess of statutory limits, a new emission reduction plan must be submitted to Rostekhnadzor for approval.

Fees for discharge per tonne of each contaminant into air and water and fees for waste disposal are established by governmental authorities. These fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved temporary limits, and the highest fees are imposed for pollution exceeding such limits (above-limit fees). Payments of above-limit fees for violation of environmental legislation do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. In 2007, we incurred above-limit fees and penalties in the amount of about $2.5 million.

Ecological expert examination

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

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

Ecological expert examination of documentation related to capital construction is regulated under the Urban Development Code. The Urban Development Code provides for governmental inspection to verify compliance of project documentation with relevant technical regulations, including sanitary-epidemiological and ecological regulations, requirements on protection of objects of cultural heritage, as well as fire, industrial, nuclear, radiation and other kinds of safety requirements, and also compliance of results of engineering surveys with relevant technical regulations.

Enforcement authorities

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

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

The structure of environmental enforcement authorities described above was established in 2004; significant changes to this structure are expected in the first half of 2008.

Environmental liability

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

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

Reclamation

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

Environmental protection programs

We have been developing and implementing environmental protection programs at all of our mining, steel, power and logistics subsidiaries. Such programs include measures to aid in our adherence to the requirements and limits imposed on air and water pollution, as well as allocation of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Kyoto Protocol

In December 1997, in Kyoto, Japan, the signatories to the United Nations Convention on Climate Change established individual, legally binding targets to limit or reduce greenhouse gas emissions by developed nations. This international agreement, known as the Kyoto Protocol, came into force on February 16, 2005. As of November 2007, 175 states (including Russia) and regional economic integration organizations (such as the E.U.) had ratified the Kyoto Protocol. We do not currently anticipate that the implementation of the Kyoto Protocol will have a material impact on our business.

Health and safety

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

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities," dated July 21, 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced, where hazardous substances are stored and used (including allowed concentrations) and where certain types of mining is done.

Our employees are covered by medical insurance purchased by us. Our employees have regular medical examinations and if necessary are offered preventative treatments in sanatoriums and preventative medicine facilities. Our employees who work in mines and other facilities with potentially hazardous working conditions have access to special food, and we provide hot meals to our employees during working hours. Our industrial production staff members are provided with special protective clothing and safety equipment and our facilities are equipped with emergency stations.

There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

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

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia of December 30, 2001, effective February 1, 2002, as amended (the "Labor Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programs, create systems to cope with and inform the Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

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

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

Antimonopoly regulation

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