Mechel OAO
Form 20-F
May 13, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-32328

MECHEL PAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125167, Russian Federation

(Address of principal executive offices)

Alexey Lukashov, tel.: +7-495-221-8888, e-mail: alexey.lukashov@mechel.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registere
COMMON AMERICAN DEPOSITARY SHARES, EACH COMMON ADS REPRESENTING TWO COMMON SHARES	NEW YORK STOCK EXCHANGE
COMMON SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE(1)
REFERRED AMERICAN DEPOSITARY SHARES, EACH PREFERRED ADS REPRESENTING ONE-HALF OF A PREFERRED SHARE	NEW YORK STOCK EXCHANGE
PREFERRED SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE	NEW YORK STOCK EXCHANGE(2)

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

None

(Title of Class)

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

None

(Title of Class)

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

416,270,745 common shares, of which 86,376,678 shares are in the form of common ADSs as of March 31, 2016

138,756,915 preferred shares (including 55,502,766 shares held by Skyblock Limited, a wholly-owned subsidiary of Mechel), of which 18,075,668 shares are in the form of preferred ADSs as of March 31, 2016

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨

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

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

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

Item 17 ¨ Item 18 ¨

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

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

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

Our business consists of three segments: mining, steel and power. References in this document to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted. References in this document to our sales or our total sales are to third-party sales and do not include intra-group sales, unless otherwise noted.

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

The presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The reason of adopting the Russian ruble as the presentation currency in the consolidated statements under IFRS is to allow a greater transparency of our financial and operating performance as it more closely reflects the profile of our revenue and operating income that are generated in Russian rubles. The U.S. GAAP financial information included in the consolidated financial statements as of January 1, 2014 and for the year ended December 31, 2014 previously reported in U.S. dollars has been converted into Russian rubles.

References to Russian rubles, rubles or RUB are to the currency of the Russian Federation, references to U.S. dollars $ or USD are to the currency of the United States and references to euro, or EUR are to the currency of the me states of the European Union that participate in the European Monetary Union.

The term tonne as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds. The term short ton is also used in this document. A short ton is equal to 907 kilograms or 2,000 pounds.

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

CIS means the Commonwealth of Independent States.

The following table sets forth by business activity the official names and location of our key subsidiaries and their names as used in this document:

Name as Used in This Document	Official Name	Location
Mining		
Mechel Mining	Mechel Mining OAO	Russia, Moscow
Southern Kuzbass Coal Company	Southern Kuzbass Coal Company PAO[(1)]	Russia, Kemerovo region
Yakutugol	Yakutugol Joint-Stock Holding Company[(1)]	Russia, Sakha Republic
Elgaugol	Elgaugol OOO	Russia, Sakha Republic
Korshunov Mining Plant	Korshunov Mining Plant OAO	Russia, Irkutsk region
Moscow Coke and Gas Plant	Moscow Coke and Gas Plant OAO	Russia, Moscow region
Mechel Coke	Mechel Coke OOO	Russia, Chelyabinsk region
Port Posiet	Port Posiet JSC[(1)]	Russia, Primorsk Krai
Port Temryuk	Port Mechel Temryuk OOO	Russia, Krasnodar Krai
Steel		
Chelyabinsk Metallurgical Plant	Chelyabinsk Metallurgical Plant PAO[(1)]	Russia, Chelyabinsk region
Izhstal	Izhstal OAO	Russia, Republic of Udmurtia
Urals Stampings Plant	Urals Stampings Plant PAO[(1)]	Russia, Chelyabinsk region
Beloretsk Metallurgical Plant	Beloretsk Metallurgical Plant AO[(1)]	Russia, Republic of Bashkortostan
Vyartsilya Metal Products Plant	Vyartsilya Metal Products Plant ZAO	Russia, Republic of Karelia
Mechel Nemunas	Mechel Nemunas UAB	Lithuania
Bratsk Ferroalloy Plant	Bratsk Ferroalloy Plant OOO	Russia, Irkutsk region
Port Kambarka	Port Kambarka OAO	Russia, Republic of Udmurtia

Power		
Southern Kuzbass Power Plant	Southern Kuzbass Power Plant OAO	Russia, Kemerovo region

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Name as Used in This Document	Official Name	Location
Kuzbass Power Sales Company	Kuzbass Power Sales Company OAO	Russia, Kemerovo region
Mechel Energo	Mechel Energo OOO	Russia, Chelyabinsk region
Marketing and Distribution		
Mechel Carbon	Mechel Carbon AG	Switzerland, Baar
Mechel Carbon Singapore	Mechel Carbon (Singapore) Pte. Ltd.	Singapore
Mechel Trading	Mechel Trading AG	Switzerland, Baar
Mechel Service Global	Mechel Service Global B.V.	Netherlands
Mechel Service	Mechel Service OOO	Russia, Moscow
Other		
Mecheltrans	Mecheltrans OOO	Russia, Moscow

(1) The legal organizational form of our Russian subsidiaries and Mechel has been changed in accordance with the current legislation of the Russian Federation.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- strategies, outlook and growth prospects;
- the ability to maintain sufficient cash and other liquid resources to meet our operating and debt service requirements;
- our ability to comply with the financial covenants in our loan agreements as well as other covenants and restrictions imposed by the existing and future financing arrangements and our ability to achieve an outcome in the ongoing debt restructuring negotiations with our lenders;
- the impact of competition;
- costs of our acquisitions and ability to realize expected synergies and other benefits;
- capital expenditures;
- demand for our products;
- economic outlook and industry trends;
- transactions with related parties;
- regulatory compliance;
- developments in our markets;

- future plans and potential for future growth;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. See Item 3. Key Information Risk Factors for a discussion of important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements.

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

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PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

Selected Financial Data

The financial data set forth below as of December 31, 2015 and 2014, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the Russian ruble and we prepare our consolidated financial statements in accordance with International Financial Reporting Standards (**IFRS**).

The consolidated financial statements for the year ended December 31, 2015 are the first we have prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, we prepared our consolidated financial statements in accordance with U.S. GAAP. Accordingly, we have prepared financial statements that comply with IFRS applicable as of December 31, 2015, together with the comparative period data for the year ended December 31, 2014. An explanation of the principal adjustments made in restating the U.S. GAAP financial statements, including the statement of financial position as of January 1, 2014 and the financial statements for the year ended December 31, 2014, is provided in note 9 to our consolidated financial statements.

Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have only provided financial statements and financial information for two fiscal years ended December 31, 2015 in this annual report as presented under IFRS. The selected financial information as of and for the years ended December 31, 2014 and 2015 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto included in this annual report.

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Our results of operations for the periods presented are affected by a disposal. See note 17 to the consolidated financial statements. The financial data below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and Item 5. Operating and Financial Review and Prospects.

	Year Ended December 31, 2015	2014
	(In millions of Russian rubles, except per share data)	
Consolidated statements of profit (loss) and other comprehensive income (loss) data:		
Revenue	253,141	243,992
Cost of goods sold	(151,334)	(153,057)
Gross profit	101,807	90,935
Selling, distribution and operating expenses, net	(77,739)	(90,048)
Operating profit	24,068	887
Other income and (expense), net	(131,196)	(131,974)
Loss before tax from continuing operations	(107,128)	(131,087)
Income tax (expense) benefit	(8,322)	8,822
Loss for the year from continuing operations	(115,450)	(122,265)
Profit (loss) after tax for the year from discontinued operations, net	822	(11,702)
Loss for the year	(114,628)	(133,967)
Less: profit (loss) attributable to non-controlling interests	535	(1,263)
Loss attributable to equity holders of the parent	(115,163)	(132,704)
Loss for the year	(114,628)	(133,967)
Exchange differences on translation of foreign operations	287	1,168
Exchange differences on translation of disposal of subsidiaries		
Remeasurement losses on defined benefit plans	(194)	(127)
Net gain on available for sale financial assets	8	2
Total comprehensive loss for the year, net of tax	(114,527)	(132,924)
Total comprehensive income (loss) attributable to non-controlling interests	537	(1,249)
Total comprehensive loss attributable to equity holders of the parent	(115,064)	(131,675)
Loss per share from continuing operations (in Russian rubles)	(278)	(290)
Earnings (loss) per share from discontinued operations (in Russian rubles)	2	(29)
Basic and diluted, loss from continuing operations attributable to common equity holders of the parent	(277)	(319)

Cash dividends per common share		
Cash dividends per preferred share		
Weighted average number of common shares	416,270,745	416,270,745
Mining segment statements of profit (loss) and other comprehensive income (loss) data[(1)]:		
Revenue	108,723	100,558
Cost of goods sold	(51,280)	(51,435)
Gross profit	57,442	49,123
Selling, distribution and operating expenses, net	(41,548)	(47,404)
Operating profit	15,895	1,718

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	Year Ended December 31, 2015	2014
	(In millions of Russian rubles, except per share data)	
Steel segment statements of profit (loss) and other comprehensive income (loss) data[1]:		
Revenue	153,004	146,867
Cost of goods sold	(119,610)	(115,485)
Gross profit	33,394	31,382
Selling, distribution and operating expenses	(24,938)	(32,729)
Operating profit (loss)	8,456	(1,347)
Power segment statements of profit (loss) and other comprehensive income (loss) data[1]:		
Revenue	41,467	39,554
Cost of goods sold	(30,178)	(29,215)
Gross profit	11,289	10,339
Selling, distribution and operating expenses, net	(11,254)	(9,915)
Operating profit	35	424
Consolidated statements of financial position data (at period end):		
Total assets	342,071	369,258
Equity attributable to shareholders of Mechel PAO	(267,803)	(154,666)
Equity attributable to non-controlling interests	5,948	8,253
Non-current interest-bearing loans and borrowings	4,308	9,346
Consolidated cash flows data:		
Net cash provided by operating activities	9,982	28,072
Net cash used in investing activities	(10,062)	(17,739)
Net cash used in financing activities	(704)	(16,020)
Non-IFRS measures[2]:		
Consolidated Adjusted EBITDA	45,730	29,759
Mining Segment Adjusted EBITDA	26,831	13,359
Steel Segment Adjusted EBITDA	17,127	14,906
Power Segment Adjusted EBITDA	2,090	1,403

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

(2) Adjusted EBITDA represents net income or loss before depreciation, depletion and amortization, foreign exchange loss (gain), finance costs, finance income, net result on the disposal of non-current assets, impairment of goodwill and other non-current assets, allowance for doubtful accounts, write-offs of inventories to net realisable value, (profit) loss after tax for the year from discontinued operations, net, net result on the disposal of subsidiaries, amount attributable to non-controlling interests, income taxes, loss (profit) from pension obligations, fines and penalties, gain from accounts payable write-off and other one-off items.

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Reconciliation of Adjusted EBITDA to net loss attributable to shareholders of Mechel PAO is as follows for the periods indicated:

	Year Ended December 31, 2015	2014
	(In millions of Russian rubles)	
Consolidated Adjusted EBITDA reconciliation:		
Net loss attributable to shareholders of Mechel PAO	(115,163)	(132,704)
Add:		
Depreciation, depletion and amortization	14,085	14,429
Foreign exchange loss	71,106	103,176
Finance costs	60,452	28,110
Finance income	(183)	(107)
Net result on the disposal of non-current assets, impairment of goodwill and other non-current assets, allowance for doubtful accounts and write-offs of inventories to net realisable value	4,772	12,710
(Profit) loss after tax for the year from discontinued operations, net	(932)	11,702
Net result on the disposal of subsidiaries	19	89
Amount attributable to non-controlling interests	535	(1,263)
Income taxes	8,322	(8,822)
Loss (profit) from pension obligations	50	(6)
Fines and penalties	1,598	915
Gain from accounts payable write-off	(224)	(38)
Other one-off items	1,293	1,568
Consolidated Adjusted EBITDA	45,730	29,759
Mining Segment Adjusted EBITDA reconciliation:		
Net loss attributable to shareholders of Mechel PAO	(71,120)	(86,787)
Add:		
Depreciation, depletion and amortization	9,106	8,747
Foreign exchange loss	49,872	70,553
Finance costs	33,880	15,045
Finance income	(1,030)	(777)
Net result on the disposal of non-current assets, impairment of goodwill and other non-current assets, allowance for doubtful accounts and write-offs of inventories to net realisable value	900	1,357
(Profit) loss after tax for the year from discontinued operations, net	(764)	13,141
Net result on the disposal of subsidiaries		
Amount attributable to non-controlling interests	(444)	(971)
Income taxes	5,632	(8,435)
Loss (profit) from pension obligations	125	(5)
Fines and penalties	707	755
Gain from accounts payable write-off	(33)	(2)
Other one-off items		741

Mining Segment Adjusted EBITDA	26,831	13,359

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	Year Ended December 31, 2015	2014
	(In millions of Russian rubles)	
Steel Segment Adjusted EBITDA reconciliation:		
Net loss attributable to shareholders of Mechel PAO	(41,438)	(45,356)
Add:		
Depreciation, depletion and amortization	4,650	5,391
Foreign exchange loss	21,122	32,910
Finance costs	25,645	12,966
Finance income	(344)	(390)
Net result on the disposal of non-current assets, impairment of goodwill and other non-current assets, allowance for doubtful accounts and write-offs of inventories to net realisable value	2,122	10,658
Profit after tax for the year from discontinued operations, net	(168)	(1,468)
Net result on the disposal of subsidiaries	19	89
Amount attributable to non-controlling interests	812	(408)
Income taxes	2,794	(374)
Profit from pension obligations	(81)	(7)
Fines and penalties	890	189
Gain from accounts payable write-off	(190)	(35)
Other one-off items	1,293	742
Steel Segment Adjusted EBITDA	17,127	14,906
Power Segment Adjusted EBITDA reconciliation:		
Net loss attributable to shareholders of Mechel PAO	(2,286)	(651)
Add:		
Depreciation, depletion and amortization	329	291
Foreign exchange loss (gain)	111	(287)
Finance costs	2,173	1,208
Finance income	(55)	(48)
Net result on the disposal of non-current assets, impairment of goodwill and other non-current assets, allowance for doubtful accounts and write-offs of inventories to net realisable value	1,751	696
Loss after tax for the year from discontinued operations, net		29
Net result on the disposal of subsidiaries		
Amount attributable to non-controlling interests	166	114
Income taxes	(103)	(13)
Loss from pension obligations	6	7
Fines and penalties		(29)
Gain from accounts payable write-off	(1)	(0)
Other one-off items		86
Power Segment Adjusted EBITDA	2,090	1,403

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

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

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

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

Adjusted EBITDA does not reflect the impact of depreciation, depletion and amortization on our operating performance. The assets of our businesses which are being depreciated, depleted and/or amortized (including, for example, our mineral reserves) will have to be replaced in the future and such depreciation, depletion and amortization expense may approximate the cost to replace these assets in the future. By excluding such expense from Adjusted EBITDA, Adjusted EBITDA does not reflect our future cash requirements for such replacements.

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

Adjusted EBITDA does not reflect the impact of the net result on the disposal of non-current assets on our operating performance, which may recur.

Adjusted EBITDA does not reflect the impact of impairment of goodwill and other non-current assets, allowance for doubtful accounts and write-offs of inventories to net realisable value, which may recur.

Adjusted EBITDA does not reflect the impact of (profit) loss after tax for the year from discontinued operations, net.

Adjusted EBITDA does not reflect the impact of net result on the disposal of subsidiaries.

Adjusted EBITDA does not reflect the impact of amounts attributable to non-controlling interests on our operating performance.

Adjusted EBITDA does not reflect the impact of loss (profit) from pension obligations.

Adjusted EBITDA does not reflect the impact of fines and penalties.

Adjusted EBITDA does not reflect the impact of gain from accounts payable write-off and other one-off items.

Other companies in our industry may calculate Adjusted EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally. See our consolidated statements of financial position and profit (loss) and other comprehensive income (loss) and consolidated statements of cash flows included elsewhere in this document.

Exchange Rates

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

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

Year Ended December 31,	**Rubles per U.S. Dollar**			
	High	**Low**	**Average(1)**	**Period End**
2015	72.88	49.18	60.96	72.88
2014	67.79	32.66	38.42	56.26
2013	33.47	29.93	31.85	32.73
2012	34.04	28.95	31.09	30.37
2011	32.68	27.26	29.39	32.20

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

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	Rubles per U.S. Dollar	
	High	Low
April 2016	68.89	64.33
March 2016	75.90	67.61
February 2016	79.50	75.09
January 2016	83.59	72.93
December 2015	72.88	66.26
November 2015	66.63	63.40
October 2015	65.94	61.15

The exchange rate between the ruble and the U.S. dollar on May 13, 2016 was 64.96 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.

Risk Factors

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

Risks Relating to Our Financial Condition and Financial Reporting

There is substantial doubt about our ability to continue as a going concern.

As discussed in note 4 to our consolidated financial statements in Item 18. Financial Statements, because we have significant debt that we do not have the ability to repay without refinancing or restructuring of all our financial obligations, and our ability to do so is dependent upon continued negotiations with the banks, there is substantial doubt about our ability to continue as a going concern. We also note that we have been in non-compliance with financial and non-financial covenants in our major loan agreements. In addition, there was a default on payments of principal and interest to certain lenders and lessors. See We face pressure on our liquidity, negatively influencing our working capital, which resulted from the acquisitions, substantial investment program, lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks, Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged and We have not fulfilled our payment obligations under several of the group s lease agreements and a number of the respective lessors have required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects. Although throughout the year there were several attempts to claim accelerated repayments, by December 31, 2015, we have agreed with our major lenders, such as Gazprombank, VTB Bank and Sberbank, to restructure our debt. As of December 31, 2015, we have signed amendment agreements with Gazprombank and VTB Bank which were conditional upon certain undertakings, which we have managed to fulfill in part as of the date hereof. As of December 31, 2015, we have also signed settlement agreements with Sberbank on Southern Kuzbass Coal Company credit facilities which were under legal proceedings. In February and March 2016, we signed amendments regulating the terms of restructuring to all credit agreements with Sberbank. In April 2016, Southern Kuzbass Coal Company signed new settlement agreements with Sberbank which assigned part of the principal amount to Gazprombank and the remaining debt was restructured. See If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects. Although we signed restructuring agreements with Russian state banks during the period from August 2015 through April 2016, we still have a number of various creditors which could (have the legal right to) request for accelerated repayment of our debt. We do not have the resources to enable us to comply with such accelerated repayment requests immediately. Our restructuring plan includes refinancing and amendment of the terms and conditions of our existing debt agreements to extend grace periods and repayment periods beyond December 31, 2016 and align the servicing of our debt with the projected cash flows to be generated by the group in 2016 and beyond, are discussed in Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Outlook for 2016 and note 4 to our consolidated financial statements in Item 18. Financial Statements. Our future is dependent on our ability to refinance or restructure our indebtedness successfully or otherwise address these matters. If we fail to do so for any reason, we would not be able to continue as a going concern and could potentially be forced to seek relief under applicable bankruptcy or insolvency procedures, in which case our shares and ADSs would lose all or a substantial amount of their value. However, given management s plans, our consolidated financial statements have been prepared on the basis that we will continue as a going concern entity, and no adjustments have been made in our consolidated financial statements relating to the recoverability and classification of the recorded value of assets, the amounts and classification of liabilities or any other adjustments that might result in any potential impact of us not being able to refinance our debt obligations as outlined in note 4 to our consolidated financial statements in Item 18. Financial Statements.

We face pressure on our liquidity, negatively influencing our working capital, which resulted from the acquisitions, substantial investment program, lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks.

Due to a substantial increase in our total indebtedness in 2007 and early 2008 which was incurred mostly for the acquisition of Yakutugol in 2007 and Oriel Resources in 2008 and as a result of the economic downturn and a sharp decline in demand and prices for our products starting from August 2008 and continuing into the first half of 2009, we experienced a liquidity shortage in late 2008 and early 2009. In order to address the liquidity shortage during 2008 through 2011 we obtained significant loans mainly to refinance debts raised to finance acquisitions, substantial investment program of our subsidiaries and increased level of inventories.

Starting from the second half of 2012 and gradually worsening during 2013 and into 2014, a second phase of economic and financial difficulties unfolded. This resulted in a further decline in demand and prices for our products and we experienced a renewed tightening of our liquidity in 2013. To alleviate the pressure on our liquidity, persisting since 2010, in 2013, we refinanced and restructured a number of major loans mainly with Russian state-owned banks and issued Russian ruble bonds in order to refinance our debts. Additionally, in December 2013, we restructured our $1.0 billion pre-export facilities with a syndicate of banks.

In the first half of 2014, we experienced a shortage of liquidity and difficulties with refinancing of our debt; as a result, we failed to fulfill our payment obligations in connection with the servicing of the interest and the repayment of our indebtedness. We held discussions with our creditors and applied for a standstill with respect to the payment of our financial obligations or a temporary reduction in servicing the loans which was not accepted. From the second half of 2014, the markets for our main products began to recover, and the depreciation of the ruble contributed to an increase in our operating profit and our available cash flow for servicing our financial obligations. Despite of further decrease in prices on our main products during 2015 with further depreciation of the ruble we managed to maintain stable operation profit and used all earned profits for servicing of our financial obligations. We resumed making partial payments of current interest to the banks and agreed extension of the grace periods and new repayment schedules with our major creditors as well as partial capitalization of interest payments and restructuring of overdue interest and principal. Our primary objective in negotiating the debt refinancing and restructuring relates to matching our projected available free cash flows with future financial and

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investment payments and resetting the financial covenants is to ensure a stable financial environment that would allow us to continue to pursue our financial strategy: lengthening the maturity profile of our debt portfolio and grace repayment periods across our most important credit facilities, which would help us endure the prolonged commodity price depression.

For the year ended December 31, 2015, we had an operating income of RUB 24,068 million as compared to RUB 887 million for the year ended December 31, 2014. Net cash provided by operating activities was RUB 9,982 million for the year ended December 31, 2015 as compared to RUB 28,072 million for the year ended December 31,2014. As of December 31, 2015, our total indebtedness was RUB 495,982 million, an increase of RUB 100,118 million from December 31, 2014. The short-term portion of our total indebtedness was RUB 491,674 million as of December 31, 2015 as compared to RUB 386,518 million as of December 31, 2014. The working capital deficit amounted to RUB 517,416 million as of December 31, 2015 as compared to RUB 413,691 million as of December 31, 2014. Cash and cash equivalents as of December 31, 2015 were RUB 3,079 million as compared to RUB 3,983 million as of December 31, 2014. Our total liabilities exceeded total assets by RUB 261,854 million as of December 31, 2015.

Our ability to refinance existing debt is limited due to difficult conditions on the domestic and international capital markets and in the banking sector, together with sanctions imposed on certain Russian banks preventing them from raising additional long-term financing on the international capital markets. We have restructured part of our debt portfolio, reduced the capital investment program and disposed of certain non-core or loss-making assets. See If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects and We will require a significant amount of cash to fund our capital investment program. These measures, if successful, should reduce the risk of facing a liquidity shortage in the medium term as well as allow us to reduce our debt leverage over time.

In October 2014, Moody s Investors Service downgraded our rating to Caa3 with negative outlook because of the increased risk of default under our credit facilities, high probability of a refinancing scenario and a weak coal market environment. Further, in December 2014, Moody s Investors Service added Ca-PD/LD to our rating due to litigation with VTB Bank. See Item 8. Financial Information Litigation Debt litigation. In March 2015, following Mechel s request, Moody s Investors Service withdrew our corporate family rating of Caa3, probability of default rating of Ca-PD/LD and long-term national scale rating of Caa2.ru. Downgrade and further absence of international rating may reduce our opportunities to raise necessary debt financing (including by accessing the debt capital markets), as well as potentially negatively impact the terms of such financing.

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodity prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors (including the imposition of further international sanctions against Russian companies or individuals as well as certain industries, including steel and mining sectors), many of which are beyond our control, may adversely and materially affect our cash flow, liquidity and working capital position and may result in an increase in our working capital deficit and in our inability to meet our obligations as they fall due. Poor liquidity and working capital deficit could lead to debt repayments difficulties, defaults, enforcement of security and eventually insolvency. As a result we will not be able to expand our business, finance capital expenditures and would have to downgrade which could result in higher cost of borrowing. All these factors could lead to difficulties with refinancing and would require further restructuring. See If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, Risks Relating to Our Business and Industry We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects and Risks Relating to the Russian Federation The

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current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. If such a situation were to occur, we may be required to further refinance and restructure our existing debt and/or to seek additional capital. There is no guarantee that we would be successful in refinancing and restructuring our debt or in raising additional capital (particularly if we fall under international sanctions preventing us from accessing foreign capital markets and supply of our products on these markets), or that we would be able to do so on a timely basis or on terms which are acceptable to us. This is reinforced by the existing uncertainty in the Russian and global economies. Any inability to satisfy our debt service obligations or to refinance debt on commercially reasonable terms could materially adversely affect our business, financial condition, results of operations and prospects. Even if we were successful, the terms of such refinancing or new capital may be detrimental to holders of ADSs and shares including due to a dilution of their interest. Any such deterioration, affect or failure could have a material adverse effect on our business, financial condition, results of operations and the trading price of our ADSs and shares.

Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects.

Most of the loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings, restrictive covenants and events of default. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, disposal of assets, corporate restructurings, investments into certain of our subsidiaries and others, require prior notice to or consent from the respective lenders. We have restrictions on our ability to pay dividends, incur additional indebtedness and make capital expenditures, as well as expand through further acquisitions and use proceeds from certain disposals.

In the first half of 2014, we missed the scheduled payments of interest and principal under most of our loan agreements, which led to cross-defaults under other agreements. Almost all of our credit facilities contain cross-default provisions which were triggered by our default under certain our loan and credit facilities. On October 29, 2014, due to our payment defaults and violation of cross-default provisions under our credit facilities with VTB Bank, VTB Bank notified us of its decision to accelerate the total outstanding amounts of principal and interest under such loan agreements, as well as impose penalties, in a total amount of 65.7 billion rubles. Such acceleration, in turn, gave our other creditors the right to trigger acceleration under their loan agreements. See We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments. On September 9, 2015, we signed restructuring agreements with VTB Bank which became effective on October 13, 2015. On October 14, 2015, due to Southern Kuzbass Coal Company payment defaults, Sberbank sent notices of its decision to accelerate the total outstanding amounts of principal and interest under the respective credit facilities, as well as impose penalties, in a total amount of approximately 3.3 billion rubles and $720.0 million. On October 6, 2015, Sberbank filed four lawsuits with the Moscow Arbitrazh Court seeking recovery of aforementioned amounts. The legal proceedings were terminated on December 21-22, 2015 due to the signing of settlement agreements.

As of December 31, 2015, we were in breach of certain financial and non-financial covenants in various loan agreements and defaulted on our loans allowing the relevant banks to claim for accelerated repayment of all amounts of outstanding at any time, however we have not received any notices from the banks as of December 31, 2015. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness, Item 10. Additional

Information Material Contracts and Item 13. Defaults, Dividend Arrearages and Delinquencies.

As of December 31, 2015, we signed agreements on restructuring of our debt with our major lenders, such as VTB Bank and Gazprombank. We also signed restructuring agreements with Sberbank in February-April 2016 which granted a grace period and extended repayments of our debt as well as waived all previous defaults. See If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects and Item 5. Operating and Financial Review and Prospects Restructuring of financial indebtedness.

Currently we continue to be in default under a number of our facilities, mainly under credit facilities with international lenders, and are negotiating with our lenders refinancing and restructuring thereof. Our international lenders have not so far waived their rights in respect of or granted their consent to our breaches. We have received notification on defaults under the facilities with our international lenders but they did not claim for acceleration repayment. The refusal of any one lender to grant or extend a waiver or amend the loan documentation, even if other lenders may have waived covenant defaults under the respective credit facilities, could result in substantially all of our indebtedness being accelerated. If our indebtedness is accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing, and we could lose our assets, including fixed assets and shares in our subsidiaries, if our lenders foreclose on their liens, which would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares and ADSs.

Our ability to continue to comply with our financial and other loan covenants in the future and to continue to service and refinance our indebtedness will depend on our results of operations and our ability to generate cash in the future and attract new financing and refinance the existing indebtedness, which will depend on several factors, including lenders credit decisions, limitations on the ability of Russian companies to access international capital markets as a result of a tightening of international sanctions against Russian companies and individuals and general economic, financial, competitive, legislative and other factors that are beyond our control. We cannot assure you that any breach of financial and other covenants in our loan agreements, including defects in security, will not result in new demands from our lenders for acceleration of our loan repayment obligations or related litigation, including as a result of cross-defaults. If we fail to comply with our financial and other covenants contained in any of our loan agreements, including compliance with financial ratios and other covenants, or fail to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of any breaches of our loan agreements or amend our loan agreements, such failure would constitute an event of default under the relevant loan agreement and a cross-default under most of the others. Any event of default under our loan agreements could result in acceleration of repayment of principal and interest under the relevant loan agreement and, via cross-default provisions, under our other facilities, reduced opportunities for future borrowing, debt service obligations in excess of our ability to pay, liability for damages or inability to further develop our business and pursue our strategic objectives, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects.

We have a number of facilities with Russian and international lenders which we have been in non-compliance. We are negotiating restructuring of indebtedness under these agreements in order to extend the repayment schedule and final maturity as well as to decrease our current interest payments. If we fail to negotiate restructuring of these agreements, lenders thereunder could claim acceleration repayment which we may not be able to make. This could lead to cross-default under other agreements and could have a material adverse effect on our business, financial condition, results of operation and prospects.

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We have signed restructuring agreements with our major Russian lenders which became partially effective and subject to fulfillment of certain conditions. See Item 5. Operating and Financial Review and Prospects Restructuring of financial indebtedness.

Our major lenders, such as Gazprombank, VTB Bank and Sberbank, require that all the loans provided to our subsidiaries shall be secured with the suretyship or pledge of assets of Mechel PAO. In accordance with the Joint-Stock Companies Law, such transactions exceeding 2% of the balance sheet value of the company s assets determined under Russian accounting standards require participation and obtaining of approval from a majority of disinterested shareholders of the company. Such security is an additional guarantee for our lenders which they require for restructuring of our debt. On March 4, 2016, we convocated the extraordinary general shareholders meeting which was to approve a number of interested party transactions but we did not manage to obtain the required quorum to approve such transaction. The next extraordinary general shareholders meeting is scheduled for May 26, 2016. We cannot predict whether we could obtain such shareholders approval in order to secure our loans in the future or we could get a waiver from the banks for the amendment of the security structure.

We still have a number of facilities with Russian and international lenders to be restructured in order to extend the repayment schedule and final maturity, which remains subject to successful closing of restructuring with the Russian state-owned banks.

In addition, some of our ruble bonds mature during 2016 and we will need to negotiate with the bondholders extension of maturities thereof and new amortization schedules. If we fail to agree with the bondholders on a restructuring and we will not have liquidity to finance buy-back of these bonds, payment default will occur. Payment default under any of ruble bonds may result in cross-default under all other bond issues. The bondholders also could litigate us after the restructuring and this could lead to termination of the restructuring.

If we fail to comply with such new terms and conditions, our lenders could claim acceleration of repayment which we may not be able to make and enforce the security which had been pledged to those banks. See We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged. This could further lead to cross-default under other agreements and could have a material adverse effect on our business, financial condition, results of operation and prospects.

We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged.

We have a substantial amount of outstanding indebtedness, primarily consisting of debt we incurred in connection with the financing of our acquisitions of Yakutugol and Oriel Resources in 2007 and 2008, as well as debt we incurred to finance our investment program in recent years including the development of the Elga coal deposit and the universal rolling mill installation, and our working capital needs which have been significant in recent years due to the depressed demand and pricing for our main products. Most of this debt has restrictive financial covenants. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants, Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness and Item 10. Additional Information Material Contracts. As of December 31, 2015, our consolidated total debt, including capital lease obligations, was RUB 509,970 million, of which RUB 505,181 million was short-term debt (including RUB 468,872 million with loan covenant violations, of which RUB 175,743 million was long-term debt reclassified to short-term debt due to defaults and cross-defaults under our loan agreements). Our finance costs for the year ended December 31, 2015 were RUB 60,453 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 100%-1 share of Yakutugol, 75%+4 shares of Southern Kuzbass Coal Company, 66.66% of Chelyabinsk Metallurgical Plant, 50%+2 shares of common shares of Beloretsk Metallurgical Plant, 80%+3 shares of Korshunov Mining Plant, 62.5% of Mechel Mining, 80%-5 shares of Urals Stampings Plant, 33.33%+1 share of common shares of Izhstal, 25%+1 share of Port Posiet, 49% of Elgaugol, 25% of registered capital of

Mecheltrans and 100% of registered capital of Fincom-invest OOO as of December 31, 2015. As of the date hereof, we have pledged additional 25% of registered capital of Port Temryuk and 25% of registered capital of Bratsk Ferroalloy Plant. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to the lenders. As of December 31, 2015, the carrying value of property, plant and equipment, inventory, accounts receivable and investments (bonds of third parties) pledged under our loan agreements amounted to RUB 37,820 million. See note 11.1(h) to the consolidated financial statements. Should we be in breach of covenants under our financial agreements and fail to receive waivers, the security may be enforced, which could have a material adverse effect on our business, financial condition, results of operations and prospects. For description of defaults and acceleration events, see Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to make payments on our indebtedness depends upon our operating performance, which is subject to general economic and market conditions, commodity prices, and financial, business and other factors (including the maintenance or extension of international sanctions against Russian companies and individuals as well as sanctions imposed on certain industrial sectors), many of which we cannot control. See We face pressure on our liquidity, negatively influencing our working capital, which resulted from the acquisitions, substantial investment program, lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks.

Among other things, high levels of indebtedness, the restrictive financial covenants in our credit facilities and breaches thereof as well as default on our loans, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility to plan for, or react to, changes in the markets in which we compete; (3) disadvantage our group relative to our competitors with superior financial resources; (4) lead to a loss of assets pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions; (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends.

We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

Our future is dependent on our ability to refinance, restructure and service our indebtedness successfully. If we fail to do so for any reason, we could be forced to seek relief under applicable bankruptcy procedures, in which case our shares and ADSs may lose all or substantial amount of their value. See There is substantial doubt about our ability to continue as a going concern.

Our creditors, including the Federal Tax Service of the Russian Federation, may file a bankruptcy petition with a court seeking to declare us insolvent if we are unable to make payments to our creditors in excess of 300,000 rubles within three months of such payments becoming due. In most cases, for such petition to be accepted, the outstanding indebtedness must be confirmed by a separate court decision or arbitral award that has already entered into force. However, under recent amendments to the Federal Law No. 127-FZ On Insolvency (Bankruptcy) dated October 26, 2002 (the **Bankruptcy Law**), financial (credit) organizations, which include our major creditors, may file a petition for bankruptcy without such separate court decision. In this case, the financial organization is required to notify the debtor and its creditors in writing at least 30 days prior to filing a petition for bankruptcy. Starting from July 1, 2015, the notification period is reduced to 15 days from the date of publication of the bankruptcy petition in the Unified Federal Register of Information on Facts of Business Activity of Legal Entities. On March 7, 2015, VTB Bank published a notification of its intention to initiate bankruptcy proceedings against us. On March 12, 2015, VTB Bank further informed our main creditors of its intention to proceed with such bankruptcy petition. The restructuring documents have been signed in September 2015 and currently there is no further development regarding this issue from VTB Bank side. On April 24, 2015, VTB Bank and VTB Capital Plc filed a claim with the High Court of Justice Queen s Bench Division Commercial Court in England seeking for injunctive relief under pre-export facility agreements with a syndicate of banks. This claim and court proceedings were put on hold until July 1, 2016. VTB Bank and VTB Capital Plc terminated Russian court proceedings and recalled all of their Russian claims against us in October 2015, once restructuring agreement with VTB Bank became effective. See Item 8. Financial Information Litigation Debt litigation. If any other creditor initiates court proceedings seeking to declare us insolvent or if the bank is granted with aforementioned preliminary injunctions, it could have a material adverse effect on our prospects and on the value of our shares and ADSs and may ultimately result in the inability of holders of our shares and ADSs to recover any of their investments.

From time to time, the group s suppliers, services providers and other third parties which we may owe operating debt to may file bankruptcy claims based on the formal debt limit provided by the Bankruptcy Law, however, the companies settle such claims before court consideration. However, the overall debt of our group companies is still substantial. Therefore, there is a risk that our creditors (including suppliers, services providers, etc.) may file bankruptcy petitions, and our shareholders and ADS holders may lose all or substantial part of their investment.

The Bankruptcy Law is relatively new and still developing. It remains largely untested in the courts and may be subject to varying interpretations. While the Bankruptcy Law establishes the principle of adequate protection of creditors, debtors, shareholders and other stakeholders in bankruptcy, it often fails to provide instruments for such protection that are available in other jurisdictions with more developed bankruptcy procedures. Bankruptcy proceedings in Russia are often not conducted in the best interests of shareholders or creditors. In addition, Russian courts that conduct bankruptcy proceedings may be subject to a greater degree of political interference and may employ a more formalistic, and less commercially sophisticated, approach to rendering decisions than like court in other jurisdictions. Russian insolvency proceedings in the past have shown a bias towards liquidation and not rehabilitation or restructuring.

The Bankruptcy Law provides for the following order of priority for the satisfaction of creditor claims: (i) personal injury claims and moral damage claims; (ii) employment claims (wages and severance payments) and royalty claims under copyright agreements; and (iii) all other claims. The claims of secured creditors are satisfied in accordance with a special procedure, that is, out of the proceeds of sale of the pledged or mortgaged assets. Equity claims of shareholders or ADSs holders may be satisfied only if any assets remain after all creditors have been paid in full. Therefore, there is a risk that our shareholders and ADS holders may lose all or substantial part of their investment. This risk is even more significant for ADS holders whose status in the bankruptcy proceedings is unclear.

We have not fulfilled our payment obligations under several of the group s lease agreements and a number of the respective lessors have required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects.

Some of our group companies have entered into various lease agreements with different leasing companies for the mining equipment, trucks, etc.

Each of the lease agreements has a certain payment schedule. Starting from the second quarter of 2014, we began to delay the regular payments under several of these lease agreements. According to the Civil Code of the Russian Federation, as amended (the **Civil Code**), and the Federal Law No. 164-FZ On Financial Leasing dated October 29, 1998, as amended, a lessor is generally entitled to apply to a court for the early termination of a lease agreement if the lessee fails to make two consecutive payments under the lease agreement. The lessor is required to notify the lessee in writing and request fulfillment of its obligations under the lease agreement within a reasonable time before applying to the court.

The lease agreements we have entered into generally provide for a stricter procedure, whereby the lessor is also entitled to terminate the contract unilaterally, without applying to the court, by way of sending a notification to the lessee in case of non-payment within a specified period of time. The lessor is entitled to receive penalties in case of a delay in payment and early termination of the lease agreement due to the lessee s default. Upon termination of the lease agreement, the lessor is entitled to request the return of the leased equipment. If the lessee fails to return the equipment, the lessor is entitled to receive rental payments covering the time of the delay and compensation for damages if not covered by rental payments.

In particular, we failed to fulfill our payment (as well as certain other) obligations under the lease agreements with Sberbank Leasing AO. Between May and August 2014, we received payment demands from Sberbank Leasing AO, requiring us to settle the overdue amounts under the respective lease agreements. In September-October 2014, Sberbank Leasing AO filed lawsuits for the recovery of the overdue amounts under the lease agreements concluded with Korshunov Mining Plant, Mechel Materials, Yakutugol, Southern Kuzbass Coal Company and Metallurgshakhtspetsstroy. We filed counterclaims which were denied by the courts. In February 2015, Sberbank Leasing AO sent termination notices to the lessees under the respective lease agreements for the total amount of 4.2 billion rubles. According to such notices, unless the payments are made within 15 days from the date of the notice, the respective lease agreements shall be deemed terminated. The payments were not made, and in April 2015, Sberbank Leasing AO requested through the courts accelerated repayment of amounts due under the lease agreements as well as the return of the leased assets. During the period from December 2015 to May 2016, we signed settlement agreements with Sberbank Leasing AO which waived our previous defaults and restructured our future payment schedules. The settlement agreements will become effective upon approval at the court hearings which are ongoing. See Item 8. Financial Information Litigation Debt litigation.

During the period from May to August 2015, following our failure to fulfill payment obligations under the respective lease agreements, Caterpillar Financial OOO sent termination notices to the lessees (Yakutugol, Mechel Engineering, Korshunov Mining Plant, Mechel Materials, Metallurgshakhtspetsstroy, Tomusinsky Open Pit and Southern Kuzbass Coal Company). We have not settled the claims and Caterpillar Financial OOO filed lawsuits with the court against our subsidiaries and Mechel (as the guarantor under four lease agreements) seeking termination of lease agreements, withdrawal of leasing assets and recovery of debt in an aggregate amount of approximately $5.0 million and 313.9 thousand. Currently, these lawsuits are considered by the courts of different instances while we continue negotiations with Caterpillar Financial OOO. See Item 8. Financial Information Litigation Debt litigation.

In the event the leased equipment is returned to the lessor, there is a risk that our operating activities (for the group companies that are lessees under the delinquent leases) will be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our business requires maintenance capital expenditures in order to maintain production levels adequate to meet the demand for our products, as well as other capital expenditures to implement our business strategy. We spent 3,865 million rubles during 2015 on our capital expenditures (including 1,837 million rubles in maintenance capital expenditures). In planning for 2016, we followed our current investment policy focusing only on those items that are either close to completion or are of major importance for our operations. Our capital investment program currently contemplates capital spending of up to 8,380 million rubles in 2016 (including up to 2,898 million rubles in maintenance capital expenditures). A considerable part of these planned capital expenditures relate to the development of the Elga coal deposit. The Elga capital expenditures are planned in the amount of approximately 6.3 billion rubles to be financed from our own funds in 2016-2018. State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) (**Vnesheconombank**) provided project financing to Elga in April 2014. As of December 31, 2015, the total amount of financing received under this project financing amounted to $170.8 million (approximately 12.5 billion rubles as of December 31, 2015). Further financing of the project is subject to the fulfillment of conditions precedent stipulated in the project finance agreements. See Risks Relating to Our Business and Industry The development of the Elga coal deposit is subject to certain risks due to the substantial amount of capital costs involved in developing the required infrastructure. We plan to spend up to 27.4 billion rubles for the three-year period of 2016-2018 on capital investments (including up to 10.0 billion rubles in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program.

Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt financing. Lack of liquidity may jeopardize capital expenditure plans, see We face pressure on our liquidity, negatively influencing our working capital, which resulted from the acquisitions, substantial investment program, lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks. This, to a certain extent, is subject to general economic and market conditions, financial, competitive, legislative, regulatory and other factors (including the status of international sanctions against Russian companies and individuals as well as sanctions imposed on certain types of products in different sectors) that are beyond our control. Raising debt financing for our capital expenditures on commercially reasonable terms may be particularly challenging given our current high levels of indebtedness and restrictive covenants imposed under the loan agreements. Any deterioration in our operating performance, including due to any worsening of economic conditions, fall in commodity prices and/or financial, business or other factors, many of which are beyond our control, may adversely and materially affect our cash flow which may leave us unable to conduct our capital expenditure plans as necessary or required, which could adversely affect our operating facilities and ability to comply with applicable regulations.

Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations.

Part of our sales are denominated in U.S. dollars, whereas the majority of our direct costs are incurred in rubles. In addition, we have foreign currency loans that are denominated mainly in U.S. dollars. Depreciation in real terms of the ruble against the U.S. dollar may result in a decrease in our costs relative to our export revenues assuming stable level of prices for our products. Also depreciation in real terms of the ruble against the U.S. dollar may result in a reduction in our ability to service debt obligations denominated in foreign currencies in case of sharp decline in sales in general and sales denominated in foreign currencies in particular. Conversely, appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase sufficiently to compensate for the increase in real terms in our ruble-denominated expenditures. In 2014, the ruble depreciated significantly against major world currencies. In 2014, the ruble depreciated in real terms against the U.S. dollar by 11.1% as compared with 2013, according to the CBR. In 2015, the ruble continued depreciation against foreign currencies, decreasing to 72.88 rubles per one U.S. dollar on December 31, 2015. In 2015, the ruble depreciated in real terms against the U.S. dollar by 27.7% as compared with 2014, according to the CBR. As of March 31, 2016, the ruble-U.S. dollar exchange rate was 67.6076 (a 15.64% growth compared to March 31, 2015) and the ruble-euro exchange rate was 76.5386 (a 20.78% growth compared to March 31, 2015).

In an effort to protect the country s foreign currency reserves from substantial depletion, the CBR moved to a free floating exchange rate regime on November 20, 2014. In response to continuing ruble depreciation, the CBR in an unexpected, emergency meeting increased its key rate, which determines the borrowing costs for commercial banks, from 10.5% to 17% (subsequently lowering the rate to 15% on February 2, 2015, 14% on March 16, 2015, 12.5% on May 5, 2015, 11.5% on June 16, 2015 and to 11% on August 3, 2015). Upon restructuring, interest rates under our ruble-denominated facilities with Russian state banks are linked to the CBR key rate (plus a margin above the key rate). Should the CBR key rate increases again, or should interest rates under our existing facility agreements otherwise increase, we will face higher borrowing costs, which could have a material adverse effect on our business, cash flows, financial condition, results of operations and prospects.

Inflation could increase our costs and decrease operating margins.

In 2015, 2014 and 2013, the inflation rate in Russia was 12.9%, 11.4% and 6.5%, respectively, according to the Russian Federal State Statistics Service (**Rosstat**). The increase of inflation in 2014 followed by further increase in 2015 may be attributed to international sanctions imposed on Russian companies and individuals, the significant fall in the ruble against the U.S. dollar and euro, high growth of prices on consumer goods and services. The Ministry of Economic Development of the Russian Federation and the CBR predict inflation will decrease in 2016 and perhaps in subsequent years as a result of reduction in spending capacity and other factors. Inflation increases our operating costs on monetary items, which are sensitive to rises in the general price level in Russia, including fuel and energy costs, cost of production services and salaries (as under existing collective agreements wage indexation is carried out taking into account inflation). Inflation could also potentially increase the prices we can charge for our products. The impact of inflation on our operating margins depends on whether we can charge higher prices corresponding with the increase in costs. Nevertheless, there is a high risk that inflation will have an overall negative impact on our operating margins.

If limitations on the conversion of rubles into foreign currencies in Russia are imposed, this could cause us to default on our obligations.

A significant part of our indebtedness and our major capital expenditures are denominated and payable in various foreign currencies, including the U.S. dollar and euro. Russian legislation currently permits the conversion of ruble revenues into foreign currency without limitation. If the Russian authorities were to impose limitations on the convertibility of the ruble or other restrictions on operations with rubles and foreign currencies in the event of an economic crisis or otherwise, there may be delays or other difficulties in converting rubles into foreign currency to make a payment or delays in or restrictions on the transfer of foreign currency. This, in turn, could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business could be materially adversely affected if creditors of certain of our subsidiaries accelerate their debt.

If we decide to merge certain subsidiaries for operational reasons from time to time, under Russian law such mergers are considered to be a reorganization and the merged subsidiaries are required to publish the information regarding this reorganization twice: the first publication due at the beginning of the reorganization and the second to follow one month after the first publication. Russian law also provides that, for a period of 30 days after the date of latest publication, the creditors of merging subsidiaries have a right to file a claim seeking acceleration of the reorganized subsidiaries indebtedness and demand reimbursement for applicable losses, except in cases where the creditors have adequate security or are provided with adequate security within 30 days after filing of such claim. In the event that we undertake any such merger and all or part of our subsidiaries indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Russian law restrictions on depositary receipt programs limit our access to equity capital and constrain our refinancing options.

Russian companies are limited in their ability to place shares in circulation outside of Russia, including in the form of depositary receipts such as our common American Depositary Shares (**common ADSs**) and our global depositary shares representing our common shares (**GDSs**), as well as our preferred American Depositary Shares representing our preferred shares (**preferred ADSs** , and together with the common ADSs, the **ADSs**) due to Russian securities regulations. We have received permission from the Russian Federal Financial Markets Service (**FFMS**) for up to 40% of our common shares to be circulated abroad through depositary receipt programs, which was the maximum amount allowed at that time. Later we also received FFMS permission for a total of 41,627,074 preferred shares to be circulated through depositary receipt programs, representing 30% of the total number of issued preferred shares, which was the maximum amount allowed at that time. Over the last few years, this limit has been gradually reduced by the regulator. Current regulations provide that no more than 25%, 15% or 5% of the total number of outstanding shares of a certain class may be placed or circulated outside the Russian Federation depending on the company s listing status on a Russian stock exchange (A, B or V and I). Order No. 13-62/pz-n of the FFMS of July 30, 2013 introduced new rules on listing status, according to which the following new categories were created: Level 1, which includes the securities formerly categorized as A level, and Level 2, which includes the securities formerly categorized as B, V, or I level securities. Our common and preferred shares have a listing status of Level 1 on Closed Joint Stock Company MICEX Stock Exchange (**MICEX**). It is unclear whether the FFMS s approvals of higher amounts prior to the establishment of these lower limits will be allowed to remain in place. Our common ADSs and GDSs together currently account for approximately 35% of our common shares, and accordingly we believe we cannot raise additional equity financing through placement of common shares in the form of depositary receipts. If the current limits are enforced Deutsche Bank Trust Company Americas (the **depositary**) may be forced to cancel some of our common ADSs and GDSs and deliver a corresponding number of the underlying common shares to holders of common ADSs or GDSs. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

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

Management identified two material weaknesses in our internal control over financial reporting as defined in the Exchange Act Rule 12b-2 and Rule 1-02 of Regulation S-X that affected our financial statements for the year ended December 31, 2015. The material weaknesses in our internal control over financial reporting identified as of December 31, 2015 are described in Item 15. Controls and Procedures. Due to the effect of these material weaknesses, our auditors have opined that we have not maintained effective internal control over financial reporting as of December 31, 2015 under Section 404 of the Sarbanes-Oxley Act of 2002. Our auditors have also opined that we did not maintain effective internal control over financial reporting as of each of December 31, 2006, 2007, 2008, 2009, 2010 and 2011 due to the effect of the material weaknesses identified as of those dates.

Notwithstanding the steps we have taken and continue to take that are designed to remedy each material weakness identified in Item 15. Controls and Procedures, we may not be successful in remedying these material weaknesses in the near or long term and we make no assurances that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in the market price of our shares and ADSs.

We may incur impairments to goodwill or other non-current assets which could negatively affect our future profits.

We assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset s recoverable amount. An asset s recoverable amount is the higher of an asset s or a cash-generating unit s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks

specific to the asset. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

We base our impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of our group s cash-generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For a cash-generating unit involved in mining activity future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers.

Impairment losses of continuing operations are recognized in the statement of profit (loss) and other comprehensive income (loss) in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, we estimate the asset s or the cash-generating unit s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit (loss) and other comprehensive income (loss) unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Based on the results of the impairment analysis of goodwill we performed as of January 1, 2014, impairment loss of RUB 1,254 million was recognized. According to the results of the impairment analysis of non-current assets, impairment loss of non-current assets of RUB 64,265 million was recognized. See note 19 to the consolidated financial statements.

According to the results of the impairment analysis, no impairment of goodwill was identified as of December 31, 2014. According to the results of the impairment analysis, impairment of non-current assets was identified in the amount of RUB 8,015 million as of December 31, 2014.

Based on the results of the impairment analysis of goodwill we performed as of December 31, 2015, impairment loss of RUB 1,444 million was recognized. According to the results of the impairment analysis of non-current assets, impairment loss of non-current assets of RUB 5,983 million was recognized. See note 19 to the consolidated financial statements. Based on comparison of carrying value and recoverable value as of December 31, 2015, excess of recoverable value over carrying value was identified therefore reversal of previously recoded impairment loss as of December 31, 2014 was recognized in the amount of RUB 5,966 million.

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The amount of goodwill on our balance sheet as of December 31, 2015 that is subject to impairment analysis in the future is RUB 21,378 million or 6% of our total assets. This amount includes goodwill of Yakutugol, Bratsk Ferroalloy Plant, Southern Kuzbass Power Plant, Kuzbass Power Sales Company and Port Posiet of RUB 13,398 million, RUB 2,930 million, RUB 2,382 million, RUB 1,026 million and RUB 756 million, respectively, as of December 31, 2015. See note 19 to the consolidated financial statements.

We continue to monitor relevant circumstances, including consumer levels, general economic conditions and market prices for our products, and the potential impact that such circumstances might have on the valuation of our goodwill and non-current assets. It is possible that changes in such circumstances, or in the numerous variables associated with our judgments, assumptions and estimates made in assessing the appropriate valuation of goodwill and recoverable value of non-financial assets, could in the future require us to further reduce our goodwill and non-financial assets and record related non-cash impairment charges. If we are required to record additional impairment charges, this could have a material adverse impact on our results of operations or financial position.

Given the competition for qualified accounting personnel in Russia, we may be unable to retain our key accounting staff, which could disrupt our ability to timely and accurately report IFRS 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 IFRS. This is a time-consuming task requiring us to have accounting personnel experienced in internationally accepted accounting standards. We believe there is a shortage in Russia of experienced accounting personnel with knowledge of internationally accepted accounting standards. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of internationally accepted accounting standards. Such competition makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave us.

Risks Relating to Our Business and Industry

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

Our mining segment sells coal (metallurgical and steam), iron ore concentrate and coke. These commodities are traded in markets throughout the world and are influenced by various factors beyond our control, such as global economic cycles and economic growth rates. Prices of these products have varied significantly in the past and continue to be lower than their peaks in recent years due to soft demand.

Our steel segment sells steel products, including semi-finished products, long products of a wide range of steel grades, carbon and stainless flat products, wire products, forgings and stampings and others, as well as ferrosilicon. Ferrosilicon is primarily used in the manufacture of steel and its market demand generally follows the cycles of the steel industry. The steel industry is highly cyclical in nature because the industries in which steel customers operate are subject to changes in general economic conditions. The demand for steel products thus generally correlates to macroeconomic fluctuations in the economies in which steel producers sell products, as well as in the global economy. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw materials costs, exchange rates, trade barriers and improvements in steel-making processes. For example, starting from late 2015, steel market in China is experiencing turbulence as the steel prices collapse and demand is falling which is already hurt by economy slowdown. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

Our power segment generates and supplies electricity. Power demand in Russia depends on its consumption by the industrial sector. In Russia, the steel and mining industries are major consumers of power and declines in production by steel and mining companies impact demand for power. Market demand for the power produced by our power segment is affected by many of the same factors and cycles that affect our mining and metals businesses. As Russian regulated power prices for households and similar to it categories of consumers are set in rubles, if power prices are not increased steadily they may decline on a real dollar basis, particularly following the depreciation in the ruble, beginning in late 2014 and continuing through 2015 and beginning of 2016, and the higher levels of inflation at present. See Risks Relating to Our Financial Condition and Financial Reporting Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations.

As a result of the 2008-2009 global economic crisis and the subsequent 2010-2011 global economic slowdown, the demand and prices for our products sharply declined. The continuing stagnation of the economy of the European region, the 2012-2015 economic slowdowns in the Asian region, primarily in China, as well as the existing uncertainty as to global economic recovery in the near future and international sanctions against Russia and Russian individuals or businesses may have adverse consequences for our customers and our business as a whole. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. Global economic slowdown in 2015 was influenced by Chinese market. During 2015, Chinese economy showed a slowdown which led to Chinese stock market s crash in the summer of 2015 followed by a decline in general demand. In the face of declining demand and commodity prices on Chinese market, we have redirected a significant portion of the exported volume of coal and iron ore to the Russian market with higher margins, which helped to preserve the level of last year production. Starting from 2015 and further to 2016 steel market in China is facing problems as the steel prices collapse and demand, which is already hurt by economy slowdown, is falling further.

Prices for our products, including coal, iron ore, metals, ferrosilicon and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the production of our products, fluctuate substantially over relatively short periods of time and expose us to commodity price risk. We do not use options, derivatives or swaps to manage commodity price risk. We use our vertically integrated business model and intersegment sales, as well as short-term and long-term purchase and sales contracts with third party suppliers and customers, to manage such risk. In addition, the length and pricing terms of our sales contracts on certain types of products are affected and regulated by orders issued by Russian antimonopoly authorities. In particular, pursuant to a directive issued to us by the Russian Federal Antimonopoly Service (**FAS**) in August 2008, we entered into long-term contracts for supply of certain grades of our coking coal with a formula of price calculation and with fixed volumes for the entire period of the contract. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices. Terms of sales of other types of our products may also be affected by regulations of the authorities. We cannot assure you that our strategies and contracting practices will be successful in managing our pricing risk or that they will not result in liabilities. If our strategies to manage commodity price risk and the impact of business cycles and fluctuations in demand are not successful, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

We face competition from Russian and international steel and mining companies. Consolidation in the steel and mining sectors globally has led to the creation of several large producers, some of which have greater financial resources and more modern facilities than our group. We also face price-based competition from producers in emerging market countries, including, in particular, Brazil (in the export of raw materials for metallurgy) and China, Ukraine, Belarus, Turkey and Kazakhstan (in the export of semi-finished products and rolled products). Increased competition could result in more competitive pricing and reduce our operating margins.

Our competitiveness is based in part on our operations in Russia having a lower cost of production than competitors in higher-cost locations. We have been facing a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. For example, our rail transportation costs increased consistently with rail tariff increases of 6.0% in 2012 and 7.0% in 2013. In 2014, railway tariffs were not indexed; however, in 2015, they were increased by 10.0%. Starting from January 29, 2015, railway export tariffs for all goods were increased by additional 13.4%, except for certain grades of coal and middlings for which additional indexation amounted to only 1.3%. In 2016, railway tariffs were increased by 9.0%. In addition, the significant fall in the ruble against the U.S. dollar and higher inflation rates in 2015 and perhaps in subsequent years could lead to increased costs in ruble terms in the future. See A decrease in railway infrastructure capacity and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products, Increasing costs of electricity, natural gas and labor could materially adversely affect our operating margins and Inflation could increase our costs and decrease operating margins. If these production costs continue to increase in the jurisdictions in which we operate, our competitive advantage will be diminished, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins.

We base our reserve information on engineering, economic and geological data which is assembled and analyzed by our staff, which includes various engineers and geologists, and which is reviewed by independent mining engineers only periodically, approximately once every three years. The reserve estimates as to both quantity and quality are periodically updated to reflect production from reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities and the costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, such as geological and mining conditions which may not be fully identified by available exploration data or which may differ from our experience in current operations, projected rates of production in the future, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning prices, operating costs, mining technology improvements, mineral extraction and excise tax, development costs and reclamation costs, all of which may vary considerably from actual results. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity. Mine development plans may have to be revised due to geological and mining conditions and other factors described above, as well as due to shortages in capital funding. Our planned development projects also may not result in significant additional reserves and we may not have continuing success developing new mines or expanding existing mines beyond our existing reserves.

The financial performance of our mining segment depends substantially on our ability to mine coal reserves that have the geological characteristics that enable them to be mined at competitive costs and to meet the quality needed by our customers. Actual tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. Our ability to obtain other reserves through acquisitions in the future could be limited by restrictions under our existing or future loan agreements, competition from other mining companies for attractive properties, the lack of suitable acquisition candidates or the inability to acquire mining properties on commercially reasonable terms. Furthermore, we may not be able to mine all of our reserves as profitably as we do at our current operations due to increases in wages, power and fuel prices and other factors.

Therefore, changes in our estimates of reserves or failure to implement mine development plans could result in lower than expected revenues, higher than expected costs or decreased operating margins.

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The development of the Elga coal deposit is subject to certain risks due to the substantial amount of capital costs involved in developing the required infrastructure.

The risks associated with the development of the Elga coal deposit have the potential to impact the project s legal or economic viability. Key risks that have been identified include the following: (1) the early termination, suspension or restriction of the right of subsoil use of the Elga coal deposit in case of violation of the requirements of the deposit development technical plan, as well as the requirement to extend the license under less favorable terms; (2) the project requires significant capital expenditures to develop the required production and washing facilities and infrastructure, and increases in planned capital and operating costs could make the project uneconomical because of the project s sensitivity to these costs; (3) the economic viability of the project is dependent upon the full use of the rail line; (4) the project is very sensitive to market prices for coal because of the high initial capital costs; and (5) the insufficient capacity of ports in the Russian Far East where the Elga deposit is located may limit the distribution of coal mined at the Elga deposit. In addition, capital expenditures for the rail line were not considered in the calculation of reserves estimates as we do not plan to use the rail line solely for delivery of coal from the Elga deposit. While we have already invested approximately 63.0 billion rubles in the development of the Elga coal deposit, its further development requires a substantial amount of investment. Based on the expected financial capabilities of the group in view of the current and projected market conditions for our main products, we plan to invest in Elga from our own funds approximately 6.3 billion rubles in 2016-2018. In March 2014, our subsidiary Elgaugol signed two loan agreements with Vnesheconombank for a $2.5 billion project financing to develop the Elga coal deposit. In case of Elgaugol s failure to comply with the construction deadlines, operational milestones and other terms of the loan agreements, Vnesheconombank may suspend or terminate the financing. The realization of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects. Disbursement under the two loan agreements was in fact suspended by Vnesheconombank due to our failure to fulfill conditions precedent; we intend to fulfill all conditions so as to continue disbursements.

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

Our strategy to expand our special steel long products sales is dependent on our ability to increase our exports of these products to other countries. We face a number of obstacles to this strategy, including oversupply and low demand, trade barriers and sales and distribution challenges, as well as restrictions imposed by antimonopoly legislation. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal and PCI, is substantially dependent on our ability to increase our exports of these products through ports in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries.

Currently, key ports in the Russian Far East have limited cargo-handling capacity, lack adequate port facilities and have old and worn-out equipment. In particular, the limited capacity of the railways connecting to these ports is a critical impediment to the further development of port infrastructure and the entire transportation system in the Russian Far East. Existing railway sections must be reconstructed, the logistics structure improved and the actions of the cargo owners, the ports management and Russian Railways, an open joint-stock company wholly owned by the Russian government, must be better coordinated. Increasing the capacity of the ports in the Russian Far East is one of the key issues identified in the Transportation Strategy of the Russian Federation. In addition, major track repairs by Russian Railways in the summer months result in restriction on cargo volumes and delays.

In particular, the total current annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line, is in the range of 12 to 15 million tonnes, which upon implementation of certain actions set forth in the Federal Target Program Development of Transport System of Russia (2010-2020) is expected to increase up to 23 million tonnes per year by 2017. However, in order to comply with the general declared volumes for cargo transportation on the Baikal-Amur Mainline, its capacity will need to be further expanded to meet, among others, our needs when Elga Open Pit reaches its full planned annual production capacity of 28.2 million tonnes of saleable coal in 2027. In addition, Russian Railways plans to increase capacity of the Komsomolsk-on-Amur-to-Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 42.3 million tonnes in 2016. However, this increase may not be sufficient as third party users of rail lines may also substantially increase their cargo volumes on the Baikal-Amur and Trans-Siberian Mainlines and further in the direction from Komsomolsk-on-Amur to Sovetskaya Gavan transportation hub. We cannot guarantee that these development projects by Russian Railways will proceed according to current plans, particularly in light of international sanctions against Russian companies and individuals. In addition, there is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavored to acquire ports or separate terminals to ensure the export of their products.

Our ability to increase coking coal export volumes is also limited by requirements to first satisfy Russian domestic coal demand, pursuant to a FAS directive issued to us in August 2008. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices. Failure to successfully manage the obstacles and tasks involved in the implementation of our export sales expansion strategy could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Almost all of our Russian assets consist of companies formed during the course of Russian privatizations in the 1990s and early 2000s. In particular, Southern Kuzbass Coal Company and the other mining companies which were subsequently merged into Southern Kuzbass Coal Company, as well as Korshunov Mining Plant and Moscow Coke and Gas Plant, were privatized in the early 1990s. Chelyabinsk Metallurgical Plant was also privatized in the early 1990s. Elgaugol OAO was privatized in 1998 and Yakutugol was privatized in 2002. In general, we acquired shares in these companies from third parties after their respective privatizations, except for a 25%+1 share stake in Yakutugol, which was acquired pursuant to a state auction in 2005. We acquired the remaining stake in Yakutugol and a 68.86% stake in Elgaugol OAO in 2007 from two state-owned companies in a tender process.

Given that Russian privatization legislation is vague, many privatizations are vulnerable to challenge. The Russian statute of limitations for challenging privatization transactions is generally three years since the date when performance of the transaction began. If a person presenting the claim was not a party to the transaction, the statute of limitations runs from the date when such person found out or should have found out that performance of the transaction was initiated. The statute of limitations generally cannot exceed 10 years from the commencement of performance of the transaction, although recent court practice suggests this limit does not apply if a claimant was not aware of a violation and if it is determined that, in accordance with general principles of justice, the statute of limitations concept cannot be otherwise relied on to allow the legalization of unlawfully acquired property. As noted above, most of our subsidiaries were privatized more than 10 years ago. In the event that any title to, or our ownership stakes in, any of the privatized companies acquired by us is subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risk losing our ownership interest in the company or its assets, which could materially adversely affect our business, financial condition, results of operations and prospects.

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

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

Our business depends on the continuing validity of our subsoil licenses and the issuance of new and extended subsoil licenses and our compliance with the terms thereof. In particular, in estimating our reserves, we have assumed that we will be able to renew our Russian subsoil licenses as and when necessary in the ordinary course of business so that we will be able to exploit the resources under such licenses for the operational life of the relevant subsoil plot. See Item 4. Information on the Company Regulatory Matters Subsoil Licensing in Russia Extension of licenses and Mining Segment Mineral reserves (coal, iron ore and limestone). However, license extension is subject to the licensee being in compliance with the terms of the license. Our experience with license extensions and publicly available information about current market practice and available court practice suggest that regulatory authorities tend to focus on such terms of the license as production levels, operational milestones and license payments, which are considered to be material terms of the license. Nevertheless, there is no assurance that this approach will be consistently applied by the regulatory authorities and the courts and that there will be no changes to this approach in the future. Regulatory authorities exercise considerable discretion in the timing of license issuance, extension of licenses and monitoring licensees compliance with license terms. Subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See Item 4. Information on the Company Regulatory Matters Subsoil Licensing in Russia Maintenance and termination of licenses. If regulatory authorities determine that we have violated the material terms of our licenses, it could lead to rejection in license extension or suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. Our subsoil licenses expire on dates falling in 2019 through 2037. See the tables setting forth expiry dates of our Russian subsoil licenses in Item 4. Information on the Company Mining Segment and reserves information. Accordingly, these factors may seriously impair our ability to operate our business and realize our reserves which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are currently in compliance with the material terms of our Russian subsoil licenses, except for the following. We failed to commence commercial coal production at the Raspadsk license area (part of Olzherassky Open Pit) in 2009 as required by the license due to unfavorable mine economics, but expect to commence such production in the fourth quarter of 2018 provided coal prices recover sufficiently. In addition, we commenced the development of the coal deposits at the Yerunakovsk-1, Yerunakovsk-2 and Yerunakovsk-3 license areas, but failed to commence commercial production at these license areas in 2011 as required by the licenses due to unfavorable mine economics. Moreover, we cannot fully develop the deposit at the Yerunakovsk-3 license area due to the presence of a third-party sludge pond in this area. Furthermore, we failed to commence commercial coal production at the Olzherassk license area (Olzherasskaya-Glubokaya Underground) due to unfavorable mine economics and the significant capital investments required to develop this license area. The Yerunakovsk-2, Yerunakovsk-3 and Olzherassk (Olzherasskaya-Glubokaya Underground) license areas are not counted for the purposes of our coal reserves.

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

In 2015, our Russian operations purchased approximately 4.7 billion kilowatt-hours (**kWh**) of electricity at a total cost of 12.2 billion rubles, implying an average cost of 2.2 rubles per kWh. The restructuring of the Russian power sector that began in 2001 is substantially complete and all government regulation of electricity prices in the wholesale power market, except for the sales to household consumers and similar type of consumers, expired in 2011. According to the Ministry of Economic Development of the Russian Federation, the average increase in market prices on the retail electricity market was 9.0% in 2015, and is expected to be in the range of 10.1-11.4% in 2016. Further price increases for electricity may also occur in the future as the power generating companies created in the restructuring are financed by and controlled to a greater extent by the private sector.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity at our own co-generation facilities, from Novatek OAO (**Novatek**), Russia s largest independent producer of natural gas, and Gazprom PAO (**Gazprom**), the government-controlled dominant gas producer and the owner of the unified gas supply system of Russia. Domestic natural gas prices are regulated by the Russian government. In 2015, we purchased approximately 1.9 billion cubic meters of gas at a total cost of approximately 6.8 billion rubles. Russian domestic natural gas prices are significantly below Western European levels, which provides us with a cost advantage over our competitors, an advantage which is expected to diminish as Russian domestic gas prices approach Western European levels. However with depreciation of the ruble against the U.S. dollar in 2015, the prices in U.S. dollar terms remain at the levels below Western European levels at the moment. Starting from July 1, 2015, the Russian Federal Tariff Service set wholesale prices of gas produced by Gazprom for domestic consumers on the territory of the Russian Federation, except for households, in the range of 2,395 rubles to 4,906 rubles as compared to prices set for the previous period which were set starting from January 1, 2014 in the range of 2,228 rubles to 4,675 rubles per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

Following raw materials used in the production process and energy-related costs, our labor costs are the next most significant operational cost. Labor costs in Russia have historically been significantly lower than those in the more developed market economies of North America and Western Europe for similarly skilled employees. However, the average wage in Russia has been rising in recent years. According to Rosstat, after adjusting for inflation, the average wage in the Russian Federation has risen at the annual rate of 1.2%, 4.8% and 8.4% in 2014, 2013 and 2012, respectively. In 2015, the average wage has decreased by 9.5%, according to Rosstat. Labor costs in Russia are indexed to and adjusted for inflation, which means that, due to higher inflation rates in 2015 and perhaps in subsequent years, we expect labor costs to rise. We believe our advantage with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid in Russia may be reduced, including as a result of higher expected inflation.

Higher costs of electricity, natural gas and labor could negatively impact our operating margins, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

A decrease in railway infrastructure capacity and an increase in railway tariffs expose us to uncertainties regarding transportation costs of raw materials and steel products.

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian rail system is controlled by Russian Railways, which is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation, including the terms related to the type of rolling stock to be used for transportation of certain types of cargo and the estimated minimum tonnage for the purposes of determining the applicable tariff. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways capital investment program, which is in turn affected by the acute need to upgrade track infrastructure and passenger- and cargo-handling facilities.

The most significant railcar owners are JSC Freight One, JSC Federal Freight, NefteTransService ZAO, Globaltrans, Firm Transgarant OOO, RT Operator OOO, Freight Company Novotrans and OTS of Siberia OOO. Our cargoes are currently transported in the railcars owned by our subsidiary Mecheltrans or third party railcar owners, mainly to transport coal products and iron ore concentrate. At present, only these third party railcar owners and Russian Railways possess a sufficiently extensive railcar fleet to service our present and future requirements. Mecheltrans works with third party railcar owners to arrange for transportation and forwarding of cargoes with their railcars. In 2015, our freight volume transported by Russian Railways OAO s Center of Corporate Transportation Services, JSC Federal Freight, JSC Freight One, RT Operator OOO, Globaltrans, OTS of Siberia OOO, NefteTransService ZAO, GSP-Trade OOO, Freight Company Novotrans, TransInvestCom OOO, Firm Transgarant OOO, IMH-Transport OOO and Rail Garant amounted to 26.7 million tonnes, for which we paid 7.1 billion rubles.

In 2015, railway tariffs were increased by 10.0%. Starting from January 29, 2015, railway export tariffs for all goods were increased by additional 13.4%, except for certain grades of coal and middlings for which additional indexation amounted to only 1.3%. Starting from January 1, 2016, railway tariffs increased by 9.0%. Along with the growth of tariff levels, a disruption may occur in the transportation of our raw materials and products due to the oversupply of rolling stock which further aggravates the insufficient capacity of the railway infrastructure. Congestion of the railway infrastructure due to the oversupply of rolling stock may also result in increases in cargo delivery terms. Furthermore, an increase in prices of rolling stock operators services may occur in the future due to lower turnover of railcars, higher inflation or other reasons. All of the above factors may negatively impact our operating margins and could materially adversely affect our business, financial condition, results of operations and prospects.

We face certain trade restrictions in the export of ferrosilicon to the European Union.

In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. In February 2013, the European Commission initiated an expiry review of the antidumping measures applicable to imports of ferrosilicon. In April 2014, the antidumping duty was extended for another five years. We may face additional antidumping duties and other trade restrictions in the European Union, the United States and other markets in the future. See Item 4. Information on the Company Steel Segment Trade restrictions.

We benefit from Russia s tariffs and duties on imported steel, many of which have been reduced upon Russia s WTO membership and may be eliminated in the future.

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5-15% of the value of the imports. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2015. The Republic of Belarus, the Republic of Kazakhstan and the Russian Federation entered into a Customs Union and implemented a Common Customs Tariff, which came into force on January 1, 2010, reducing import duties on stainless rolled products from 15% to 10%. In 2015, the Customs Union was enlarged to include the Republic of Armenia and the Kyrgyz Republic. Creation of the Customs Union, as well as other actions and decisions of Russian authorities in respect of tariffs and duties, can lead to further reduction of import duties.

On November 20, 2013, the Eurasian Economic Commission initiated an antidumping investigation against imports of steel bars originating in Ukraine. In March 2016, the investigation was completed resulting in the imposition of antidumping duties for a period of five years. Therefore, we will benefit from protection of the Eurasian Economic Union s market from low-priced import of steel bars.

Upon Russia s entry into the World Trade Organization (**WTO**), the import tariffs and duties of Russia were reduced or eliminated, depending on the type of steel products. In particular, according to the WTO accession terms Russian import duties on most types of steel products have been reduced to 5%, causing increased competition in the Russian steel market from foreign producers and exporters.

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

Chemical substances contained in some of our products, as well as by-products and waste, which we export to or produce in the European Union are subject to regulation (EC) No 1907/2006 on registration, evaluation, authorization and restrictions of use of chemicals (**REACH**) that entered into force on June 1, 2007. Under REACH, we must provide a registration dossier for such substances to the European Chemicals Agency (**ECHA**). In addition, we must provide the information about the registered substances usage and utilization to the competent authorities of the E.U. Member States and downstream users upon request. In accordance with REACH, prior to December 1, 2008, we pre-registered substantially all of the substances that we intended to export to or produce in the European Union. As a next step in accordance with the REACH implementation schedule, prior to December 1, 2010, we registered with the ECHA all of the substances that we export to or produce in the European Union in an amount over 1,000 tonnes per year, and which are subject to REACH registration. We believe that we are in compliance with current REACH requirements and we will have to maintain certain resources to ensure compliance with further developing REACH requirements.

REACH provides for a special authorization regime for substances of high concern, including those that are identified from scientific evidence as causing probable serious effects to humans or the environment on a case-by-case basis. To obtain authorization, a manufacturer of substances of high concern is generally required to demonstrate that the risk from the use of the substance is adequately controlled. All substances under the authorization regime are subject to restrictions with respect to manufacture, placing on the market or use. The European Commission may amend or withdraw the authorization, even one given for adequate control, if suitable substitutes have become available. Currently, none of our products contain substances which may be subject to the authorization regime. There is no assurance that our products will not be subject to further restrictions or bans if any substance of high concern is detected in our products in excess of statutory thresholds, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

The European Commission has planned several revisions of the REACH regulation by 2019. Compliance with changes to the existing regulations may lead to increased costs, modifications in operating practices and/or further restrictions affecting our products. Any such changes and/or modifications could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to mining risks.

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

In particular, hazards associated with our open pit mining operations include, but are not limited to: (1) flooding of the open pit; (2) collapses of the open pit wall; (3) accidents associated with the operation of large open pit mining and rock transportation equipment; (4) accidents associated with the preparation and ignition of large-scale open pit blasting operations; (5) deterioration of production quality due to weather; and (6) hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination.

Hazards associated with our underground mining operations include but are not limited to: (1) underground fires and explosions, including those caused by flammable gas; (2) cave-ins or ground falls; (3) emissions of gases and toxic chemicals; (4) flooding; (5) sinkhole formation and ground subsidence; and (6) other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine, including due to human error.

We are at risk of experiencing any and all of these hazards. The occurrence of such hazards could delay production, increase production costs, result in injury to persons or death, and damage to property, as well as liability for us. For example, in 2008, there were two accidents at V.I. Lenina Underground which involved multiple casualties, and one of the accidents resulted in five fatalities. In 2010 through 2012, there were a number of occasions of self-heating and spontaneous ignition of coal as well as an increase of coal dust levels, each of which resulted in the temporary suspension of mining operations at the longwalls of Sibirginskaya Underground, V.I. Lenina Underground and Olzherasskaya-Novaya Underground. There were no casualties involved in any of these occasions. In 2013-2015, there were also a number of occasions which caused the temporary suspension of mining operations, but had no significant effect on our business. We have been and are still implementing measures to cure the causes of these occasions and we are cooperating with the competent governmental authorities, in particular, the Russian Federal Service for Ecological, Technological and Nuclear Supervision (**Rostekhnadzor**).

The risk of occurrence of these hazards is also exacerbated by the significant level of wear of the equipment of our mining enterprises. We are conducting a program of phased replacement and refurbishment of obsolete equipment in order to meet safety requirements at our most hazardous facilities.

Abnormal weather conditions and natural hazards could negatively impact our business.

Our production facilities are located in different climate and weather conditions, and abnormal weather changes and natural hazards could affect their operations. Interruptions in electricity supply and transport communication could lead to delays in deliveries of raw materials to our production facilities and finished products to consumers, as well as a suspension of production. In addition, the existence of abnormally low temperatures for a long period of time may limit the work of the crane equipment and mining-and-transport equipment. For example, in 2012 operations at our open pit mines in Russia were suspended for a period of 2 to 7 days due to abnormally low temperatures. In 2013, such suspensions ranged from 2 to 16 days. The negative impact of such abnormal or extreme climate and weather conditions may have an adverse effect on our business, financial condition, results of operations and prospects.

More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, cleanup costs and compensatory damages, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations and properties are subject to environmental laws and regulations in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including the requirement to perform decontamination and reclamation, such as cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related cleanup costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental and civil laws is clearly determinable. Furthermore, new and more stringent regulations have been introduced in a number of countries in response to the impacts of climate change. See Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.

Generally, there is a greater awareness in Russia of damage caused to the environment by industry than existed during the Soviet era. At the same time, environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. However, recent Russian government initiatives indicate that Russia will introduce new water, air and soil quality standards and increase its monitoring and fines for non-compliance with environmental rules, and environmental concerns are increasingly being voiced at the local level. For example, Resolution No. 1029 of the Government of the Russian Federation dated September 28, 2015 On approval of criteria for attribution of objects having a negative impact on the environment to objects of I, II, III and IV category, sets criteria for the classification of objects that have a negative impact on the environment into the four categories. The first category includes objects that have a significant negative impact on the environment and relate to fields of application of the best available technology and the fourth category includes objects that have minimal environmental impact. Our production facilities can be attributed to the first category of objects that have a negative impact on the environment.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2015, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of RUB 3,704 million for rehabilitation provision. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided. We estimated the total

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amount of capital investments to address environmental concerns at our various subsidiaries at RUB 644 million as of December 31, 2015. These amounts are not accrued in the consolidated financial statements until actual capital investments are made. See note 29 to the consolidated financial statements.

In the course, or as a result, of an environmental investigation by Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to be halted for a period of up to 90 days. We have been cited in Russia for various violations of environmental regulations in the past and we have paid certain fines levied by regulatory authorities in connection with these infractions. In June 2013, the Russian Federal Service for the Supervision of Natural Resources (**Rosprirodnadzor**) claimed 398.6 million rubles from Beloretsk Metallurgical Plant as compensation for damages caused by discharging waste water into the river Belaya and Beloretsk storage reservoir. This claim was resolved by means of a settlement agreement approved by the arbitrazh court according to which Beloretsk Metallurgical Plant is obliged to reconstruct a waste treatment facilities system by December 31, 2016. In February 2015, Rosprirodnadzor filed a similar claim in the amount of 195.3 million rubles against Beloretsk Metallurgical Plant. In accordance with the court s decision, Beloretsk Metallurgical Plant is obliged to perform a set of measures for equipment modernization until July 1, 2017. See Item 8. Financial Information Litigation Environmental and safety. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective periods since we acquired or established them, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In the event that production at any of our facilities is partially or wholly suspended due to this type of sanction, our business, financial condition, results of operations and prospects could be materially adversely affected.

Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.

Through our mining and power segments, we are a major producer of carbon-related products such as coal, coal concentrate and energy. Coal and coal-based energy are also significant inputs in many of the operations of our steel segment. A major by-product of the underground mining of coal is methane (CH_4) and a major by-product of coal burning is carbon dioxide (CO_2), both of which are considered to be greenhouse gases and generally a source of concern in connection with global warming and climate change.

The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Kyoto Protocol. In order to give the countries a certain degree of flexibility in meeting their emission reduction targets, the Kyoto Protocol developed mechanisms allowing participating countries to earn and trade emissions credits by way of implementing projects aimed at meeting the Kyoto Protocol targets. The European Union has established greenhouse gas regulations and many other countries are in the process of doing so. The European Union Emissions Trading System (**EU ETS**), which came into effect on January 1, 2005, has had an impact on greenhouse gas and energy-intensive businesses based in the European Union. Our operations in Lithuania are currently subject to the EU ETS, as are our E.U. based customers.

The Russian Federation ratified the Kyoto Protocol in 2005 and since October 2009 Russia has established a legal procedure for implementing trading mechanisms provided under the Kyoto Protocol. However, in 2012, Russia refused to sign up for the second period of limits set to begin in 2013 and remain in effect until 2020.

In December 2015 at the Paris climate conference, 196 countries adopted the United Nations Framework Convention on Climate Change which is due to enter into force in 2020. The agreement sets out a global action plan to avoid climate change. As stated by Mr. Putin during his speech at the Paris conference, Russia expects to decrease greenhouse gas emissions to 70% of the 1990 level by 2030. Furthermore, the Russian Federation shall develop a long-term plan to reduce greenhouse gas emissions and shall establish a strategy on adaptation to climate change. In

July 2015, Ministry of Natural Resources and Ecology of the Russian Federation has approved guidelines for the quantification of the amount of greenhouse gas emissions by organizations conducting business and other activities in Russia.

Further Russia s steps on implementation of the United Nations Framework Convention on Climate Change could restrict our operations and/or impose significant costs or obligations on us, including requiring additional capital expenditures, modifications in operating practices, and additional reporting obligations. These regulatory programs may also have a negative effect on our production levels, profit and cash flows and on our suppliers and customers, which could result in higher costs and lower sales. Finally, we note that even without further legislation or regulation of greenhouse gas emissions, increased awareness and any adverse publicity in the global marketplace about the greenhouse gasses emitted by companies in the steel manufacturing industry could harm our reputation and reduce customer demand for our products.

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

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. See Item 4. Information on the Company Regulatory Matters Licensing of Operations in Russia. Governmental authorities in countries where we operate exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations, and in monitoring licensees compliance with the terms thereof which may result in unexpected audits, criminal prosecutions, civil actions and expropriation of property. For example, in November 2015, the Ministry for Investment and Development of the Republic of Kazakhstan unilaterally terminated the contract for the silicate nickel ore production at the Shevchenko deposit in Kazakhstan s Kostanay region entered into in connection with the subsoil license for the Shevchenko deposit due to non-compliance with the terms of the contract. Governmental authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year.

Our failure to comply with existing laws and regulations or to obtain and comply with all approvals, authorizations and permits required for our operations or findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses, permits, approvals and authorizations or in requirements that we cease certain of our business activities, or in criminal and administrative penalties applicable to our officers. Arbitrary government actions directed against other Russian companies (or the consequences of such actions) may generally impact on the Russian economy, including the securities market. Any such actions, decisions, requirements or sanctions could increase our costs and materially adversely affect our business, financial condition, results of operations and prospects.

The concentration of our shares with our largest shareholders will limit your ability to influence corporate matters and transactions with largest shareholders may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions.

Our Chairman, Igor Zyuzin may be deemed to be the beneficial owner of approximately 36.34% of our common shares. In addition, our Chairman s wife and children, Mrs. Irina Zyuzina and Ms. Ksenia Zyuzina and Mr. Kirill Zyuzin, together may be deemed to be the beneficial owners of approximately 18.70% of our common shares each separately. Therefore, Mr. Igor Zyuzin and Mrs. Irina Zyuzina together beneficially own 55.04% of our common shares. See Item 7. Major Shareholders and Related Party Transactions. Except in certain cases as provided by the Federal Law On Joint-Stock Companies, dated December 26, 1995, as amended (the **Joint-Stock Companies Law**), resolutions at a general shareholders meeting are adopted by a majority of the voting stock at a meeting where shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin and his family members have the power to control the outcome of most matters to be decided by a majority of the voting stock present at a general shareholders meeting and can control the appointment of the majority of directors and the removal of all of the elected directors if they act in concert. In

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addition, our largest shareholders are likely to be able to take actions, which require a three-quarters supermajority of the voting stock present at such a general shareholders meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in such meeting. Thus, our largest shareholders can take actions that you may not view as beneficial or prevent actions that you may view as beneficial, and as a result, the value of our common shares and ADSs could be materially adversely affected.

We have also engaged and will likely continue to engage in transactions with related parties, including our largest shareholder, which may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Our competitive position and future prospects depend on our senior management team.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the performance of our senior management team and, in particular, Mr. Zyuzin, our Chairman and largest single shareholder. Mr. Zyuzin has provided, and continues to provide, strategic direction to us.

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

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

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

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

- to avoid the unjustified reduction of production volumes and product range at Southern Kuzbass Coal Company;

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

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

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

In connection with the establishment of Mechel Mining, the subsidiary into which we consolidated certain of our mining assets, we received a directive from the FAS dated June 23, 2008, which contains requirements as to the activities of Mechel Mining and its subsidiaries Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market. The requirements are the same as those described above.

In August 2008, as a result of an antimonopoly investigation into the business of our subsidiaries Mechel Trading House, Southern Kuzbass Coal Company, Yakutugol and Mechel Trading, the FAS found them to have abused their dominant position in the Russian market for certain grades of coking coal concentrate. The FAS issued a directive requiring these subsidiaries and their successors to, among others, refrain from taking any action in the Russian market for certain grades of coking coal concentrate which would or may preclude, limit or eliminate competition and/or violate third parties interests, including fixing and maintaining a monopolistically high or low price, refusing or avoiding to enter into an agreement with certain buyers without good economic or technological reasons where the production or supply of the relevant grades of coking coal concentrate is possible and creating discriminatory conditions for buyers. Furthermore, the FAS initiated administrative proceedings against Mechel Trading House, Southern Kuzbass Coal Company and Yakutugol which resulted in fines being imposed on these companies in the total amount of 797.7 million rubles, which equals nearly 5% of these subsidiaries total sales of coking coal concentrate (including intra-group sales) for 2007.

In the event of a breach of the terms of business conduct set forth by the FAS, the FAS may seek to impose fines for violations of antimonopoly and administrative legislation. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sale of all goods, works and services on the market where such violation was committed, but not more than 2% of gross proceeds of sale of all goods, works and services. Russian legislation also provides for criminal liability for violations of antimonopoly legislation in certain cases. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The imposition of any such liability on us or our subsidiaries could materially adversely affect our business, financial condition, results of operations and prospects.

Negative publicity associated with any antimonopoly, administrative, criminal or other investigation or prosecution carried out with respect to our business practices, regardless of the outcome, could damage our reputation and result in a significant drop in the price of our shares and ADSs and could materially adversely affect our business, financial condition, results of operations and prospects.

We may be forced to dispose of our electricity assets as a result of change in Russian law.

Under Russian law, companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, in particular, through simultaneously owning assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale. Amendments to the law adopted in December 2011 introduced a new enforcement mechanism with respect to affiliated companies which do not comply with the law. The amendments allow the relevant governmental authorities to force the sale, first, of electricity generation and/or sale assets and, second, of electricity distribution assets of such affiliated entities. See Item. 4 Information on the Company Regulatory Matters Regulation of Russian Electricity Market.

Some entities in our group, including Southern Kuzbass Power Plant, Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant, Kuzbass Power Sales Company, Mechel Energo, Korshunov Mining Plant, Bratsk Ferroalloy Plant, Beloretsk Metallurgical Plant, Izhstal and Urals Stampings Plant, own assets both for electricity generation and/or sale and for electricity distribution.

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We believe that the prohibition described above only applies if assets are both owned and directly used by an entity or affiliated entities.

During 2008 and 2009, we leased our electricity distribution assets to an unaffiliated third party, Electronetwork ZAO. Subsequently, Electronetwork ZAO partially repurchased these assets and currently all of them are used to distribute electricity to us and other customers. Our entities are not involved, therefore, in electricity distribution activity. We believe that by leasing our electricity distribution assets to an unaffiliated third party and not using them for electricity distribution, we are not in violation of the law.

Given that there is no official guidance or court practice clarifying this matter, our interpretation of the law may not be upheld by Russian courts. We will closely follow further development of administrative and court practice in this area. We will vigorously defend our position, if it is challenged by the authorities. However there is a risk that the court may come to a view that we are in breach of the law and may order us to dispose of our electricity assets. Disposal of these assets may have a material adverse effect on our business and operations.

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

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

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

Minority shareholder lawsuits, if resolved against our group companies, could have a material adverse effect on our financial condition and results of operations.

Russian corporate law allows minority shareholders holding as little as a single share in a company to have standing to bring claims against the company challenging decisions of its governing bodies. These features of Russian corporate law are often abused by minority shareholders, who can bring claims in local courts seeking injunctions and other relief for which, in some cases, we may not receive notice. Any such actions by minority shareholders, if resolved against our group companies, could have a material adverse effect on our business, financial condition, results of operations and prospects. See Item 8. Financial Information Litigation Securities litigation.

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

As of December 31, 2015, approximately 61% of all our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us and we consider our relations with our employees to be good, under Russian law unions have the legal right to strike and other Russian companies with large union representation periodically face interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relationships with our labor force and trade unions worsen in the future. We have signed the industry agreements for coal and ore mining and smelting industries and have renegotiated most related collective bargaining agreements. If we are unable to prolong collective bargaining agreements on similar conditions in the future or our employees are dissatisfied with the terms of the collective bargaining agreements and undertake any industrial action, it could have material adverse effects on our business, financial condition, results of operations and prospects.

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

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our Russian production facilities are not insured, and we have no coverage for business interruption or for third-party liability, other than insurance required under Russian law, collective agreements, loan agreements or other undertakings. Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. We cannot assure you that the insurance we have in place is adequate for the potential losses and the liability we may suffer.

Since most of our production facilities lack insurance covering their property, if a significant event were to affect one of our facilities, we could experience substantial financial and property losses, as well as significant disruptions in our production activity, for which we would not be compensated by business interruption insurance.

Since we do not maintain separate funds or otherwise set aside reserves for these types of events, in case of any such loss or third-party claim for damages we may be unable to seek any recovery for lost or damaged property or compensate losses due to disruption of production activity. Any such uninsured loss or event may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Businesses of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to the incorporation of entities, share issuances, share disposals and acquisitions, mandatory buy-out offers, acquisition and valuation of property, including land plots, interested party transactions, major transactions, decisions to transfer licenses, meetings of governing bodies, other corporate matters and antimonopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and corporate decisions, restrictions on voting rights or the imposition of other liabilities. As applicable laws of the jurisdictions where our group companies are located are subject to varying interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions, and the invalidation of any such actions, transactions and corporate decisions or imposition of any restriction or liability could have a material adverse effect on our business, financial condition, results of operations and prospects.

Terrorist attacks and threats, escalation of military activity, massive cyber attacks or incidents or damage to property as a result of military conflict, and government regulation in response to such attacks or acts of war may negatively affect our business, financial condition, results of operations and prospects.

Terrorist attacks and threats, escalation of military activity, massive cyber attacks or incidents or any damage to property, such as our subsidiary Donetsk Electrometallurgical Plant in eastern Ukraine, resulting from military conflict, and an increase in government regulation in response to such attacks or acts of war may negatively affect our business. There could be delays or losses in transportation and deliveries of our products to our customers, increased government regulation and decreased sales due to disruptions in the businesses of our customers. It is possible that any such occurrences could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

Risks Relating to Our Shares and the Trading Market

International sanctions relating to the crisis in Ukraine could adversely impact the trading market for our shares and ADSs.

The United States and the European Union introduced sanctions against certain Russian companies and individuals as a result of the crisis in Ukraine. If current sanctions are maintained and/or further sanctions introduced, the trading market for our shares and ADSs and the rights of our shareholders and ADS holders could be materially adversely affected. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs and Risks Relating to the Russian Federation Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability.

In particular, if any of our existing or future clients, suppliers or other counterparties become subject to or directly impacted by such sanctions, this may compel shareholders and ADS holders to sell their shares and ADSs so as to remain in compliance with their respective internal rules on investments or with any applicable laws or regulations (which, due to the recent nature of the sanctions, are subject to wide-ranging interpretation). Such sales may decrease the market value of our shares and ADSs and potentially inhibit other investors from purchasing our shares and ADSs, thereby causing the trading market for our shares and ADSs to become less liquid.

Moreover, should any sector in which we operate become subject to so-called sectoral sanctions, in either of the United States or the European Union, the relevant clearing systems, brokers and other market participants as well as the New York Stock Exchange (**NYSE**) may refuse to permit trading in or otherwise facilitate transfers of the ADSs. As a result, applicable law or internal compliance requirements may prevent certain ADS holders from continuing to hold the ADSs and potential ADS holders may be prohibited from purchasing the ADSs. Any of the above could significantly reduce the trading market for, and materially adversely affect the value of, our shares and ADSs.

The price of our shares and ADSs could be volatile and could drop unexpectedly, making it difficult for investors to resell our shares or ADSs at or above the price paid.

The price at which our shares and ADSs trade is influenced by a large number of factors, some of which are specific to us and our operations and some of which are related to the mining and steel industries and equity markets in general. As a result of these factors, investors may not be able to resell their shares or ADSs at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of our shares and ADSs:

- investor perception of us as a company;
- actual or anticipated fluctuations in our revenues or operating results;
- announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;
- changes in our dividend policy, which could result from changes in our cash flow and capital position;
- sales of blocks of our common shares, common ADSs, preferred shares or preferred ADSs by significant shareholders, including the Justice persons;
- price and timing of any refinancing of our indebtedness;
- potential litigation involving us;
- changes in financial estimates and recommendations by securities research analysts;
- fluctuations in Russian and international capital markets, including those due to events in other emerging markets;
- the performance of other companies operating in similar industries;

regulatory developments in the markets where we operate, especially Russia and the European Union;

international political and economic conditions, including the effects of fluctuations in foreign exchange rates, interest rates and oil prices and other events such as terrorist attacks, military operations, changes in governments and relations between countries, international sanctions, particular those currently in place against certain Russian companies and individuals, natural disasters and the uncertainty related to these developments;

news or analyst reports related to markets or industries in which we operate; and

general investor perception of investing in Russia.

As a result of deteriorating market conditions in 2014 for our main products, together with our high leverage, our shares and ADSs price dropped significantly in 2014, and ADSs started trading below one U.S. dollar and thus became non-compliant with the NYSE continuous listing standards. On February 27, 2015, the 30 trading-day average closing price of ADSs amounted to $1.26 per ADS. As a result, we received official notice from the NYSE on March 2, 2015 that our ADSs came back into compliance with the listing standards.

On August 19, 2015, we received an official notice from the NYSE stating that the price for Mechel ADSs had fallen below the $1.00 threshold and we were required to bring our share price and average share price back above one U.S. dollar within six months from the date of receipt of the notice. In order to regain compliance with the NYSE requirements, we changed the ratio of our ADSs from one ADS per one common share to one ADS per two common shares, which became effective on January 12, 2016. As a result, we received official notice from the NYSE on February 1, 2016 that our ADSs came back into compliance with the listing standards.

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries. Under Russian law, dividends may be declared and paid only out of net profits calculated under Russian accounting standards and as long as certain conditions have been met, including if the value of the net assets, calculated under Russian accounting standards, is not less (and would not become less as a result of the proposed dividend payment) than the sum of the charter capital, the reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares. See Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Description of Capital Stock Dividends. Currently, some of our subsidiaries do not meet this criteria and cannot approve payment of, or pay dividends. See Risks Relating to the Russian Federation One or more of our subsidiaries could be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect our business, financial condition, results of operations and prospects.

Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to taxes, statutory restrictions, retained earnings criteria, and covenants in our subsidiaries financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. See note 26 to the consolidated financial statements. In addition, loan agreements which we have restructured contain restrictions on the payment of dividends on our common and preferred shares. See Item 8. Financial Information Dividend Distribution Policy.

Upon introduction of a new system of recording the depositary s rights to the shares underlying depositary receipts, the depositary is required to disclose information on ADS and GDS owners in order to exercise voting rights and receive dividends with respect to the shares underlying ADSs and GDSs.

Effective January 1, 2013, a new system of recording the depositary s rights to the shares underlying depositary receipts was introduced by the Federal Law No. 415-FZ of December 7, 2011, as amended on December 29, 2012 (**Federal Law No. 415-FZ**). Pursuant to the new system, the underlying shares are no longer recorded at the depositary s owner s account opened with a Russian custodian holding a depo account of nominee holder with the issuer s shareholder register. Instead, the underlying shares are now recorded at a depo account of depositary programs opened with a Russian custodian which in its turn has a depo account of nominee holder opened with the central depositary. On November 6, 2012, the FFMS granted CJSC National Settlement Depositary (**NSD**) the status of Russian central depositary. Starting from November 6, 2013, the depo accounts of depositary programs should be opened for depositaries, and shares represented by depositary receipts should be recorded in depo accounts of depositary programs.

In addition to the new recording system, the Federal Law No. 415-FZ also sets forth new obligations for a depositary to disclose information on depositary receipt owners in order to exercise voting rights with respect to the shares represented by depositary receipts. The CBR by its Directive No. 3680-U dated June 15, 2015 sets forth the requirements for the provision of information about the depositary receipt owners. Such information is provided to the issuer in the form of a list of persons who exercise the rights under the depositary receipts. The list is provided to the issuer by the foreign depositary which opens the depo account of depositary programs. The list is provided for the preparation and holding of a shareholders meeting. Furthermore, any obligations of the depositary to disclose information on depositary receipt owners in order to receive dividends were abolished effective January 1, 2014 pursuant to the Federal Law No. 282-FZ of December 29, 2012, as amended (**Federal Law No. 282-FZ**). Under the

Federal Law No. 282-FZ, the payment of dividends on the shares represented by depositary receipts is made to the foreign depositary which opens the depo account of depositary programs.

Currently, it is not clear whether the term depositary receipt owner means a holder registered on the records of the depositary, a securities intermediary or a beneficial owner of a depositary receipt. As a result, the scope of the above reporting obligations, which may affect the rights of our ADS and GDS holders, also remains uncertain. We cannot assure you that the Federal Law No. 415-FZ and the other regulations by the CBR, to which the powers of the FFMS were delegated, will be compatible with the way in which depositary receipt programs were customarily operated in the past or with foreign confidentiality regulations, or that the new requirements will not impose additional burdens upon the depositary, ADS and GDS holders or their respective securities intermediaries, any of which may cause investments in our ADSs to be seen as less attractive.

In addition, the Federal Law No. 282-FZ requires the foreign depositary to take all reasonable steps to provide information on depositary receipt owners to the issuer, state arbitrazh courts, the CBR and governmental investigative authorities upon their request, and depositary receipt owners may not refuse to provide such information in response to the depositary if so requested. The CBR is entitled to demand the depositary to cure any breach of such disclosure requirements, and if the depositary fails to cure, the CBR may suspend or limit any operations with depo accounts of depositary receipt program for up to six months with respect to the number of securities not exceeding the number of securities for which the obligation to provide information has not been fulfilled. It is unclear how the CBR will use these new regulatory powers. Any suspension of or limitation on our ADS or GDS programs could have a material adverse effect on the value of the ADSs.

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

If at any time the depositary believes that the shares deposited with it against the issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) a percentage of shares which exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, causing *pro rata* cancellation of ADSs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to so comply. Any such circumstances may affect the liquidity and the value of the shares and ADSs.

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

ADS holders have no direct voting rights with respect to the shares represented by the ADSs. They can only exercise voting rights with respect to the shares represented by ADSs in accordance with the provisions of the deposit agreements relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps which are involved. For example, the Joint-Stock Companies Law (effective from July 1, 2016) and our charter require us to notify shareholders not less than 30 days prior to the date of any meeting of shareholders and at least 50 days prior to the date of an extraordinary meeting to elect our Board of Directors. Within specified time limits, the notification of the convocation of the general shareholders meeting shall be sent to each person entitled to participate in the general shareholders meeting by post or delivered to each of the above persons against signature in accordance with the procedure prescribed by our charter and published on our site *www.mechel.ru* in the information and telecommunication network Internet, or in the newspaper *Rossiyskaya Gazeta* and on our site *www.mechel.ru* in the information and telecommunication network Internet or on our site *www.mechel.ru* in the information and telecommunication network Internet. Our common shareholders, as well as our preferred shareholders in cases when they have voting rights, are able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

For ADS holders, in accordance with the deposit agreements, we will provide the notice to the depositary. The depositary has in turn undertaken, as soon as practicable thereafter, to mail to ADS holders notice of any

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such meeting of shareholders, copies of voting materials (if and as received by the depositary from us) and a statement as to the manner in which instructions may be given by ADS holders. To exercise their voting rights, ADS holders must then timely instruct the depositary how to vote their shares. As a result of this extra procedural step involving the depositary, the process for exercising voting rights may take longer for ADS holders than for holders of shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting.

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

ADS holders may be unable to repatriate their earnings.

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

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

Under Russian tax legislation, dividends paid to a non-resident holder of shares of a Russian company generally will be subject to a 15% withholding tax. This tax rate may potentially be reduced to 10% or 5% for U.S. holders of the shares that are legal entities and organizations and to 10% for U.S. holders of the shares that are individuals under the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the **United States-Russia income tax treaty**), provided a number of conditions are satisfied. In connection with the enactment of amendments to Russian tax legislation, effective from January 1, 2014, the reduced tax rate of 5% established in accordance with certain provisions of the United States-Russia income tax treaty does not apply on dividend payments under ADSs. The general rate of 10% which is established by the treaty and does not account for benefits applies, subject to the submission of certain information to the tax agent. If such information has not been submitted to the tax agent in the prescribed manner and in a certain period of time, a tax rate of 30% is applied. Thus, the tax agent may be obliged to withhold tax at higher non-treaty rates when paying out dividends, and U.S. ADS holders may be unable to benefit from the United States-Russia income tax treaty. ADS holders may apply for a refund of a portion of the tax withheld under an applicable tax treaty, however, this process may be time-consuming and no assurance can be given that the Russian tax authorities will grant a refund. See Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations for additional information.

Capital gains from the sale of ADSs may be subject to Russian profit tax.

Under Russian tax legislation, gains realized by foreign organizations from the disposition of Russian shares and securities, as well as financial instruments derived from such shares, with the exception of shares that are traded on an organized securities market, may be subject to Russian profit tax or withholding income tax if immovable property located in Russia constitutes more than 50% of our assets. Gains arising from the sale on foreign exchanges (foreign market operators) of securities or derivatives circulated on such exchanges are not considered Russian source income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered permanent establishment in Russia. Gains arising from the disposition on foreign stock exchanges of the foregoing types of securities listed on these exchanges are not subject to taxation in Russia.

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

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

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

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

We and the Justice persons may offer additional preferred shares and preferred ADSs in the future, and these and other sales may adversely affect the market price of the preferred shares and preferred ADSs.

As of the date of this document, of the 138,756,915 issued preferred shares, 40% are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by the public and may be held by James C. Justice II, James C. Justice III, James C. Justice Companies Inc. and Jillean L. Justice (collectively, the **Justice**

persons). The Justice persons disposed or may dispose of all or part of the remaining preferred shares they held through one or more offerings or broker trades. It is also possible that we may decide to offer additional preferred shares and preferred ADSs through public offering or broker trades in the future, including preferred shares held by Skyblock Limited. Additional offerings or sales of preferred shares and preferred ADSs by us or the Justice persons, or the public perception that such offerings or sales may occur, could have an adverse effect on the market price of our preferred shares and preferred ADSs.

Risks Relating to the Russian Federation

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in developed or other emerging markets could have a material adverse effect on our business and could cause the value of our shares and ADSs to fluctuate widely.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that the value of securities of Russian companies is subject to rapid and wide fluctuations due to various factors. The escalation of the present situation or the emergence of new tensions between Russia and other countries, imposed sanction by Russian Federation on some countries and vice versa may lead to outflow of the investors from the market, quick and huge sales of Russian assets which will result further reductions in the price of Russian securities. We cannot assure you that any such developments will not have a material adverse effect on our business, financial condition, results of operations and prospects, and the value of our shares and ADSs is expected to be highly volatile while tension between Russian and other countries remains unresolved and/or the Russian economy continues to deteriorate.

Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set forth in this document may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to affect adversely the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face liquidity constraints as foreign funding sources become less available. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability.

Russia has endured ethnic, religious, historical and other divisions, which have, on occasion, given rise to tensions and, in certain cases, diplomatic and military conflict, both internally and with other countries.

For example, the Russian Federation was involved in armed conflict with Georgia in August 2008, and differing views on the Georgia conflict have had an impact on the relationship between the Russian Federation, the European Union, the United States and certain former Soviet Union countries. In addition, the relationship between Ukraine and the Russian Federation has in the recent past been subject to significant strain for a number of reasons, including Ukraine s failure to pay and accumulation of payment arrears relating to the supply of energy resources, Ukraine s possible accession to NATO and the European Union. More recently, Russia s relations with Ukraine have reached an historic post-Soviet low point following renewed political instability in Ukraine that resulted in the departure from office of Mr. Yanukovich (Ukraine s former president), Russia s role in the subsequent accession of Crimea and Sevastopol to Russia, and widespread accusations that Russia is actively involved in or otherwise supporting insurgents in eastern Ukraine in their struggle against Ukraine s central authorities. This has resulted in a substantial deterioration in Russia s relations with the United States, the European Union and other countries such as Canada, Japan and Australia, and has led to the imposition of sanctions against certain Russian individuals and entities and has contributed to certain volatility in the Russian economy and a deterioration in Russia s macroeconomic condition and prospects. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs. If such tensions intensify or new tensions emerge between the Russian Federation and Ukraine, Georgia, the European Union, the United States or any other countries, leading potentially to the imposition of further trade sanctions or embargoes, the Russian economy will likely experience further volatility and deterioration.

In September 2015, the Russian Federal Council approved the use of Russian forces in Syria, following a formal request from the Syrian government. Operations in Syria commenced in late September 2015 and are continuing as at the date hereof. Furthermore, in November 2015, the Turkish air force shot down a Russian strike aircraft over the territory of Syria, which resulted in tensions between Russia and Turkey and led to imposition of wide range of sanctions by Russia against Turkey. Turkey and the European Union in turn have promised to take countermeasures, in particular, by introducing additional antidumping duties against Russian flat steel products. Currently we do not export flat steel products to E.U. or Turkey, however should we start exporting flat steel products to E.U. or Turkey, imposition of additional duties may have a materially adverse effect on us. Furthermore, should additional duties against other products we produce be introduced, we may be materially adversely affected.

Many of the aforementioned events have adversely affected the Russian economy and the Russian financial and banking markets, increased capital outflows, as well as worsened general business and investment climate in Russia. The Russian stock exchanges have experienced heightened volatility, Russia s credit markets have tightened, and the exchange rate of the ruble against the U.S. dollar and other currencies has depreciated significantly. See Risks Relating to Our Financial Condition and Financial Reporting Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations.

In part as a result of political tensions, international sanctions, ruble volatility and the drop in the oil price, in January 2015, Standard & Poor s lowered the long- and short-term Russian Federation s foreign currency rating to BB+/B from BBB-/A-3 and local currency rating to BBB-/A-3 from BBB/A-2, both with a negative outlook. In January 2015, Moody s Investors Service lowered Russia s government bond rating to Baa3 from Baa2, further downgrading it in February 2015 to Ba1, with a negative outlook. On March 4, 2016, Moody s placed Russia s Ba1 rating on review for downgrade. In January 2015, Fitch downgraded the Russian Federation s long-term foreign and local currency Issuer Default Rating to BBB- with a negative outlook.

The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

In connection with the ongoing events in Ukraine, the United States and the European Union (as well as some other countries) have imposed sanctions on certain Russian and Ukrainian persons and entities. The prohibitions in the countries that imposed the new sanctions regimes generally apply to nationals of those countries or any action taken within the territory of those countries, and may, particularly, in the case of U.S. sanctions, have extraterritorial effect on transactions with a direct or indirect connection to the jurisdiction.

Starting from March 2014, the United States introduced sanctions against Russian and Ukrainian persons and entities perceived to have been involved in the crisis in Ukraine, certain senior officials of the Russian Federation, or vocal supporters of Russia s position in the Ukrainian crisis. Pursuant to these orders, a number of

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prominent Russian and Ukrainian government officials, politicians and businessmen have been sanctioned, blocking all of their property within the United States, denying them entry into the United States and effectively foreclosing them from using the United States economic and financial system.

In March 2014, the United States also laid the groundwork for so-called sectoral sanctions on Russia, whereby entities in certain sectors of the Russian economy are designated as potential targets for sanctions. Currently, such sectors include defense and related materiel, financial services, and energy. The relevant sectoral sanctions currently provide for restrictions on new debt or equity transactions for designated entities in the financial sector, restrictions on new debt transactions for designated entities in the energy sector, restrictions on new debt transactions for designated entities in the defense sector, and restrictions on the provision of goods, services, or technology in support of Russian Arctic offshore, deepwater, or shale projects with the potential to produce oil. The United States has also significantly tightened export controls on the provision of U.S.-origin goods that may be used in the Russian defense or energy sectors.

Finally, in December 2014, the United States introduced sanctions barring transactions involving Crimea within U.S. jurisdictions.

In addition to the actions above, in December 2014, the U.S. Congress gave the President authority to introduce so-called secondary sanctions against non-U.S. companies engaged in certain activities in support of Russian Arctic offshore, deepwater, or shale oil projects, certain financial transactions in support of such projects or of U.S.-sanctioned Russian or Ukrainian persons, or certain Russian arms sales. Pursuant to secondary sanctions, non-U.S. companies engaged in targeted conduct, even entirely outside U.S. jurisdiction, may themselves become the subject of U.S. sanctions.

The European Union s sanctions generally have a similar effect to the U.S. sanctions and involve travel restrictions and the freezing in the European Union of funds and economic resources of the designated persons, as well as export restrictions with respect to equipment and technology for Arctic, deepwater and shale oil projects, and the prohibition on provision of direct or indirect financing to the designated persons.

In June 2014, the European Union imposed a general ban on the import of goods originating in Crimea/Sevastopol, followed by trade and investment restrictions for Crimea/Sevastopol in July 2014. These trade and investment restrictions currently prohibit certain new infrastructure investments in the transport, telecommunications and energy sectors, as well as investments in the oil, gas and mineral resources industries in Crimea/Sevastopol; they also ban direct or indirect technical assistance or financial services in connection with such investments. Further, in December 2014, the European Union introduced a ban on investments in real estate and businesses in Crimea and Sevastopol, on the export of a wide range of goods and technology to Crimean companies or for use in Crimea, and on services related to tourism activities in Crimea and Sevastopol.

In July 2014, the European Union imposed a ban on transactions with transferable securities and money market instruments with a maturity exceeding 90 days issued after August 1, 2014 by the largest Russian financial institutions including Sberbank, VTB Bank, Gazprombank, Vnesheconombank and Rosselkhozbank and their affiliates, subsequently lowering the threshold to 30 days for instruments issued after September 12, 2014. In September 2014, the European Union imposed an additional ban on transactions in transferable securities and money market instruments with a maturity exceeding 30 days, issued after September 12, 2014 by six Russian defense and energy companies including OPK Oboronprom, United Aircraft Corporation, Uralvagonzavod, Rosneft, Transneft and Gazprom Neft and their affiliates. Furthermore, the European Union imposed a ban on the provision of new loans (either directly or indirectly) with a maturity exceeding 30 days to the aforementioned Russian entities and their affiliates after September 12, 2014.

Since August-September 2014, the European Union has also imposed restrictions on the transfer of certain technologies for the oil and gas industry in Russia and certain goods and services for deepwater, Arctic or shale oil projects in Russia. The current sanction regime is a result of multiple extensions by the U.S. and European

Union in the term and scope of sanctions, the most recent of which entered into force in late 2015. The U.S. executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the mining sectors.

No individual or entity within our group has been designated for sanctions under any of these authorities. Additional designations may be made, or additional categories of sanctions may be created, at any time, and we can give no assurance that any member of our group, or individuals holding positions in our group, will not be affected by future sanctions designations. The U.S. regulations identify metals and mining as an example of a sector that may be identified for sectoral sanctions, which could result in the imposition of some or all of the restrictions described above; however, at this time, no such identification has been made, nor has Mechel or any of its directors and officers been designated by the U.S. Department of the Treasury Office of Foreign Assets Control (**OFAC**). U.S. law also provides that persons that have materially assisted, sponsored or provided financial, material or technological support for, or goods or services to or in support of any targeted person or activity may be designated for sanctions. Mechel, like a large number of Russian companies, has commercial relationships with entities that are subject to U.S. sanctions. Finally, if U.S. sanctions were imposed on persons or entities collectively owning 50% or more of any group entity, such sanctions would also apply to the entity and its subsidiaries. If we become subject to U.S. or E.U. sanctions, such sanctions will likely have a material adverse impact on our business, financial condition, results of operations or prospects. For example, we might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. dollars, raise funds from international capital markets, acquire equipment from international suppliers, or access our assets held abroad. Moreover, investors in our shares or ADSs may be restricted in their ability to sell, transfer or otherwise deal in or receive distributions with respect to our shares or ADSs, either because the investor or (in the case of ADSs) the depository is subject to the jurisdiction of an applicable sanctions regime, which could make such shares or ADSs partially or completely illiquid and have a material adverse effect on their market value.

Some entities within our group are E.U. persons. These entities are therefore required to comply with the E.U. sanctions, including not conducting business with any sanctioned persons. Most of the group entities, however, are neither U.S. persons nor E.U. persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or E.U. jurisdiction. However, the United States takes a broad view with respect to its sanctions jurisdiction, and there can be no assurance that compliance issues under applicable U.S. and/or E.U. sanctions laws and regulations will not arise with respect to us or our personnel. In particular, because the above discussed sanctions are very recent, their scope and consequences remain subject to interpretation by competent authorities and courts in the United States and the European Union, and no assurance can be given that a broader interpretation may not affect any of the group entities. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant group entities to contract with U.S. and/or E.U. governments or their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or E.U. law, the imposition of significant fines, and negative publicity and reputational damage. In addition, should our dealings with sanctioned counterparties become material, our ability to transact with U.S. or E.U. persons could be affected. As a result, our ability to raise funding from international financial institutions or the international capital markets may be inhibited.

The sanctions imposed by the United States and the European Union in connection with tensions between Russia and other countries so far have had an adverse effect on the Russian economy, to which we are exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access international capital markets. See Risks Relating to the Russian Federation Domestic, regional and international political and diplomatic conflicts could create an uncertain operating environment that could adversely affect our business and hinder our long-term planning ability. The governments of the United States and certain E.U. Member States, as well as certain E.U. officials have indicated that they may consider additional sanctions should tensions in Ukraine continue. For example, the United States has authority to impose secondary sanctions threatening adverse action against companies outside U.S. jurisdiction participating in certain Russian oil projects, which could deter those companies from investing in the Russian economy; additional secondary sanctions could be adopted that could affect the willingness of companies acting outside U.S. jurisdiction to deal with Russia and Russian companies. There have also been proposals to cut off Russia from the international SWIFT payment system and Russia s counter-proposals to disrupt international payment systems, which could disrupt ordinary banking services in Russia and any cross-border trade.

Further tensions between Russia and other countries and any escalation of related tensions between Russia and the United States and/or the European Union, the imposition of further sanctions, or continued uncertainty regarding the scope thereof, could have a prolonged adverse impact on the Russian economy, particularly levels of disposable income, consumer spending and consumer confidence, as well as the ability of Russian banks to sustain required liquidity levels and comply with their financial obligations. These impacts could be more severe than those experienced to date. In particular, should either the United States or the European Union expand their respective sanctions on our existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, such an expansion could result in our dealings with designated persons, if any, being materially adversely impacted, the suspension or potential curtailment of business operations between us and the designated persons could occur, and substantial legal and other compliance costs and risks on our business operations could emerge. All of the above could have a material adverse impact on our business, financial condition, results of operations or prospects.

Economic risks

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

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

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product (**GDP**), a relatively stable ruble, strong domestic demand, rising real wages and reduced rates of inflation. However, these trends were interrupted by the global financial crisis in late 2008, which led to a substantial decrease in the GDP s growth rate, ruble depreciation and a decline in domestic demand. The Russian government took certain anti-crisis measures using the stabilization fund and hard currency reserves in order to soften the impact of the economic crisis on the Russian economy and support the value of the ruble. As a result, following a decline in 2009, Russian GDP grew by 4.5% in 2010, 4.3% in 2011, 3.4% in 2012 and 1.3% in 2013, according to Rosstat. More recently, the economic slowdown in emerging market economies, including Russia, as well as political and other disturbances in emerging markets have introduced additional uncertainty in the overall outlook for growth of the global economy. Growth in the Russian economy has slowed down considerably, recording GDP growth in 2014 of 0.6%, according to Rosstat. In 2015, GDP contracted by 3.7%, according to Rosstat, as a result of an array of factors, including negative investor sentiment arising from the disturbances in eastern Ukraine, international sanctions imposed on Russian companies and individuals, substantial depreciation of the ruble against major world currencies and the precipitous drop in oil prices. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

According to the

Ministry of Economic Development of the Russian Federation, the Russian economy is expected to contract by 0.2% in 2016 (basic scenario of economic development). Further economic instability in Russia could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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

A substantial portion of our loans are from Russian banks, including state-owned banks such as Sberbank, VTB Bank and Gazprombank, who in recent years have extended the maturity of our loans, waived breaches of financial covenants and reset our financial covenants to give us more flexibility to operate our business. In addition, Vnesheconombank, another Russian state-owned bank, had provided a project financing for the development of the Elga deposit. Such banks may not exhibit the same degree of flexibility with respect to our financings as they have in the past due to the imposition of international sanctions against them. Moreover, we rely on the Russian banking system to complete various day-to-day fund transfers and other actions required to conduct our business with customers, suppliers, lenders and other counterparties.

While the impact of the 2008-2009 global financial crisis on the Russian banking system was contained by the actions by the CBR at that time, the risk of further instability remains high due to the continuing weakness of the Russian economy and the strong likelihood of a recession in the near future. The Russian banking system suffers from international sanctions imposed against state-owned banks, weak depositor confidence, high concentration of exposure to certain borrowers and their affiliates, poor credit quality of borrowers and related party transactions. Risk management, corporate governance and transparency and disclosure remain below international best practices. In the global financial crisis, Russian banks were faced with a number of problems simultaneously, such as a withdrawal of deposits by customers, payment defaults by borrowers and deteriorating asset values and ruble depreciation. Russian banks faced and continue to face serious mismatches in their liabilities (consisting in large part of foreign debt) and assets (loans to Russian borrowers and investments in Russian assets and securities). The existing sentiment towards Russian banks could continue to worsen in the near future due to the impact of international sanctions discussed above. See Risks Relating to the Russian Federation The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.

These weaknesses in the Russian banking sector make the sector more susceptible to market downturns or economic slowdowns including due to defaults by Russian borrowers that may occur during such market downturn or economic slowdown. A banking or liquidity crisis or the bankruptcy or insolvency of the banks which lend to us or in which we hold our funds or use for banking transactions could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

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

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

The global economic crisis, social and political instability in some Middle East countries and in Ukraine, Chinese economic slowdown followed by Chinese market s crash and decline in demand and dramatic fall in oil prices and other negative developments in various countries have resulted in increased volatility in the capital markets in many countries, including Russia. As has happened in the past, financial problems in emerging market economies or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. In addition, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil or international sanctions against the Russian oil industry could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Such has occurred recently as crude oil prices have dropped by nearly 32.5% between January 1, 2015 and January 1, 2016 (according to Intercontinental Exchange), the Russian financial markets have experienced significant volatility during 2015 and expect to continue experiencing such volatility in 2016 and the ruble s value against major world currencies has fallen significantly. See Risks Relating to Our Financial Condition and Financial Reporting Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations. Russia is also one of the world s largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of international sanctions, tariffs and/or antidumping measures by any of its principal export markets.

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

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the net assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an annual basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 19 to the consolidated financial statements.

Political and social risks

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

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, protests against the results of 2011 and 2012 parliamentary and presidential elections, corruption and the government in general.

Tensions in Russia s relations with other countries and world bodies or conflicts between the government and powerful business groups or among such business groups, as well as the continuation of and the development

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of international sanctions imposed on Russian institutions, organizations and individuals could disrupt or reverse political, economic and regulatory reforms and also lead to restrictions on our business and a negative impact on Russia s economy and investment climate. Any disruption or reversal of reform policies or economic downturn could lead to social, political or governmental instability or the occurrence of conflicts between various groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs and impede our efforts to restructure our indebtedness, especially in relation to international lenders.

Corruption and negative publicity could negatively impact our business and the value of our shares and ADSs.

The local press and international press have reported high levels of corruption in Russia, including unlawful demands by government officials and the bribery of government officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. In addition, there are reports of the Russian media publishing disparaging articles in return for payment. From time to time, we are the subject of press reports that we believe contain false information about our business and financial condition as well as our largest shareholder. If we or our managers, largest shareholder or counterparties are accused of involvement in government corruption or are otherwise the subject of libelous reports in the press, the resulting negative publicity could disrupt our ability to conduct our business and impair our relationships with customers, suppliers, creditors and other parties, which could have a material adverse effect on our business, financial condition and results of operations and the value of our shares and ADSs and impede our efforts to restructure our indebtedness.

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

Currently the Russian labor market suffers from a general shortage of skilled and trained workers, and we compete with other Russian companies to hire and retain such workers. In Russia, the working age population has declined due to a relatively low birth rate at the end of the 1980s and through the early 1990s. As of January 1, 2016, Rosstat estimated Russia s population at 146.5 million, a decline of 2.0 million from 1992. In recent years, declines in population levels slowed down as a result of an increase in migration and a reduction in the natural decline of the population; in 2014-2015, the population level in fact increased. However, the birth rate remains relatively low, which together with the aging and high mortality of the population, is the main problem of Russia s demographic development. Russia s working age population is estimated to decline by 10-13 million by 2025. A shortage of skilled Russian labor combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

Legal risks and uncertainties

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

Most of the existing subsoil licenses in Russia date from the Soviet era. During the period between the dissolution of the Soviet Union in August 1991 and the enactment of the first post-Soviet subsoil licensing law in the summer of 1992, the status of subsoil licenses and Soviet-era mining operations was unclear, as was the status of the regulatory authority governing such operations. The Russian government enacted the Procedure for Subsoil Use Licensing on July 15, 1992, which came into effect on August 20, 1992 (the **Licensing Regulation**). As was common with legislation of this time, the Licensing Regulation was passed without adequate consideration of transition provisions and contained numerous gaps. In an effort to address the problems in the Licensing Regulation, the Ministry of Natural Resources (the **MNR**) issued ministerial acts

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and instructions that attempted to clarify and, in some cases, modify the Licensing Regulation. Many of these acts contradicted the law and were beyond the scope of the MNR s authority, but subsoil licensees had no option but to deal with the MNR in relation to subsoil issues and comply with its ministerial acts and instructions. Thus, it is possible that licenses applied for and/or issued in reliance on the MNR s acts and instructions could be challenged by the prosecutor general s office as being invalid. In particular, deficiencies of this nature subject subsoil licensees to selective and arbitrary governmental claims.

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

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

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

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

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

- inconsistencies between and among the Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- rapid enactment of many laws and regulations resulting in their ambiguities and inconsistencies;

large-scale continuing reforms in almost all legal matters;

the lack of fully developed corporate and securities laws;

substantial gaps in the regulatory structure due to the delay or absence of implementing legislation;

changes in the Russian court system, in particular, the merger of the Supreme Arbitrazh Court with the Russian Supreme Court;

the relative inexperience of judges in interpreting legislation and contradictory judicial interpretations of the law;

- the lack of full independence of the judicial system from commercial, political and nationalistic influences;
- difficulty in enforcing court orders;
- a high degree of discretion or arbitrariness on the part of governmental authorities; and
- still-developing bankruptcy procedures that are subject to abuse. See Risks Relating to Our Financial Condition and Financial Reporting We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.

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

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

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, under Russian corporate law, if a Russian company s net assets calculated on the basis of Russian accounting standards at the end of its third or any subsequent financial year, fall below its share capital, the company must decrease its share capital to the level of its net assets value or initiate a voluntary liquidation. In addition, if a Russian company s net assets calculated on the basis of Russian accounting standards at the end of its second or any subsequent financial year, fall below the minimum share capital required by law, the company must initiate voluntary liquidation not later than six months after the end of such financial year. If the company fails to comply with either of the requirements stated above within the prescribed time limits, the company s creditors may accelerate their claims and demand reimbursement of applicable damages, and governmental authorities may seek involuntary liquidation of the company. Certain Russian companies have negative net assets mainly due to very low historical asset values reflected on their balance sheets prepared in accordance with Russian accounting standards; however, their solvency, i.e., their ability to pay debts as they become due, is not otherwise adversely affected by such negative net assets. Currently, we have the following subsidiaries with total liabilities greater than total assets: Mechel-Steel Management, Mechel Trading House, Mecheltrans, Mechel Energo, Port Kambarka, VtorResource, VtorResource-Yuzhny, Mechel Construction Materials, Yakutugol, Metallurgshakhtspetsstroy, Management Metallurgical Equipment Repair, Southern Kuzbass Coal Company, Shakhtspetsstroy, Romantika, Port Mechel Vanino, Sky-Extra, Mechel-Remservice, Maritime Cargo Shipping, Mecheltrans Management, Mecheltrans Vostok, Izhstal, Elgaugol, Mechel TransAuto and Mechel Vtormet.

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

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

Governmental authorities in Russia have a high degree of discretion. Press reports have cited instances of Russian companies and their major shareholders being subjected to government pressure through prosecutions of violations of regulations and legislation which are either politically motivated or triggered by competing business groups.

In mid-2008, Mechel came under public criticism by the Russian government. Repeated statements were made accusing Mechel of using tax avoidance schemes and other improprieties. Ultimately the allegations regarding tax avoidance were not confirmed by the tax authorities, but the antimonopoly investigation resulted in imposition of a fine and issuance of a FAS directive regarding our business practices. See Risks Relating to Our Business and Industry Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes and business practices.

Selective government action, if directed at us or our largest shareholder, could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See Item 10. Additional Information Description of Capital Stock Rights attaching to common shares. Disclosure and reporting requirements have also been enacted in Russia. Concepts similar to the fiduciary duties of directors and officers to their companies and shareholders are also expected to be further developed in Russian legislation; for example, amendments to the Russian Code of Administrative Offenses imposing administrative liability on members of a company s board of directors or management board for violations committed in the maintenance of shareholder registers and the convening of general shareholders meetings. While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, the enforcement of these and other protections has not been effective.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a general shareholders meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a general shareholders meeting, they are in a position to approve amendments to a company s charter, reorganizations, significant sales of assets and other major transactions, which could be prejudicial to the interests of minority shareholders. See Risks Relating to Our Business and Industry The concentration of our shares with our largest shareholders will limit your ability to influence corporate matters and transactions with largest shareholders may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm s length transactions.

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

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

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

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

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

Russian law provides that shareholders that vote against or do not participate in voting on certain matters have the right to request that the company redeem their shares at value determined in accordance with Russian law. The decisions of a general shareholders meeting that trigger this right include:

decisions with respect to a reorganization;

the approval by shareholders of a major transaction, which, in general terms, is a transaction involving property in excess of 50% of the balance sheet value of the company s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated, except for transactions undertaken in the ordinary course of business;

the amendment of the company s charter or approval of a new version of the company s charter that limits shareholder rights; and

the amendment of the public company s charter which eliminates indication that the company is public, simultaneously with the decision on applying to the CBR on release from obligation to disclose information under the laws of the Russian Federation on securities and the decision on applying for delisting of shares and equity securities convertible into shares.

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally

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associated with investments in other securities markets. Furthermore, the depositary, under the terms of the deposit agreements governing record keeping and custody of our ADSs, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See Item 10. Additional Information Description of Capital Stock Registration and transfer of shares.

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

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

- a profit tax;
- a value-added tax (**VAT**);
- a mineral extraction tax; and
- property and land taxes.

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

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Contradictory interpretations of tax regulations exist within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and documentation such as customs declarations, are subject to review and investigation by relevant authorities, which may impose severe fines, penalties and interest charges. Generally, in a tax audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to re-audit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. As a result of the fact that none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has obstructed or hindered a tax audit and ultimately seek back taxes and penalties beyond the three year term. In some instances, new tax regulations have been given retroactive effect.

Since May 2009, in connection with the proposal expressed by the Russian President in his Budget Message regarding the budget policy for 2010-2012, an overhaul of the anti-avoidance mechanism of double tax treaties has begun. In

November 2014, Russian legislation was significantly revised in order to prevent unlawful use of low-tax jurisdictions for tax evasion in the Russian Federation. The amendments in the legislation set out the rules for the taxation of income of a foreign organization that is deemed to be a controlled foreign company. A foreign organization is recognized as a controlled foreign company if it is not a tax resident of the Russian Federation and the participation interest of the controlling legal entities or individuals in the organization is more than 10%. The transition period provides for a gradual reduction in the size of non-taxable profit, in particular, to 50 million rubles, 30 million rubles and 10 million rubles in 2015, 2016 and 2017 and thereafter, respectively. Starting from 2015, these changes in tax regulations could increase the tax burden on companies which are recognized to be controlling of foreign companies. In addition, Russian companies are required to disclose information about controlled foreign companies to the Russian tax authorities. All of these measures are intended to ensure the transparency of economic transactions, including foreign trade transactions. Disclosure of beneficial ownership, beneficial recipients of income and tax residence of legal entities at their actual place of business is, according to the new legislation, a prerequisite for the application of tax preferences, including reduced tax rates under international double tax treaties. In November 2014, Russia ratified the Convention on Mutual Administrative Assistance in Tax Matters which provides for the potential exchange of tax information, including simultaneous tax inspections with Member States of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (OECD), which signed the convention, as well as for assistance in the collection of taxes on their territories. Furthermore, starting from June 30, 2014, the Federal Law No. 173-FZ entered into force, which regulates the procedure of interaction of financial market entities with foreign tax authorities, primarily within the bounds of the U.S. law Foreign Account Tax Compliance Act (FATCA).

On November 16, 2011, the Russian President signed the Law on Amendment of Part One and Part Two of the Tax Code of the Russian Federation in Connection with the Formation of a Consolidated Group of Taxpayers. The main provisions of the law came into force on January 1, 2012. The law provides for formation of a consolidated group of taxpayers for the purposes of profit tax calculation and payment on the basis of the combined business performance of the members of such group. However, the law sets forth a number of requirements for the formation of a consolidated group of taxpayers. Starting from 2013, 16 companies of our group have formed a consolidated group of taxpayers, with Mechel being a responsible party. The formation of the consolidated group of taxpayers allowed us to determine the taxable income with profit and loss offset of all the companies included in the consolidated group of taxpayers and to pay profit tax from total aggregate income under the consolidated group of taxpayers, starting from January 1, 2013. In 2014, there have been some changes in the composition of the consolidated group of taxpayers as a result the number of members has increased to 20 companies. Due to changes in Russian tax legislation, starting in 2015 the consolidated tax base does not include any profit received from controlled foreign companies by a member of the consolidated group of taxpayers (such member being the controlling entity of such controlled foreign companies and the responsible party for paying profit tax in respect of the profits of controlled foreign companies irrespective of the profit tax of the consolidated group of taxpayers).

However, regardless of being a member of the consolidated group of taxpayers or not, Mechel and our Russian subsidiaries pay Russian taxes on dividends they receive from other companies in our group. The tax rate on dividend income amounts to 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules) if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties) if being distributed to foreign companies which are not controlled foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 13%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or an international tax agreement.

In addition, application of current Russian thin capitalization rules and the developing negative court practice on such disputes, including at the level of the Presidium of the Supreme Arbitrazh Court of the Russian Federation, may affect our ability to pay interest on loans in full. In particular, taking into account the requirements of Russian law and negative court practice on thin capitalization, it is practicable to withhold as a dividend tax a part of the interest on borrowings of our subsidiaries which are either received from Mechel or received from independent banks and guaranteed by Mechel. In addition, part of interest on these borrowings may not be treated as expenses for tax purposes under certain conditions provided by thin capitalization rules. In February 2016, a law which significantly changes the current approach applicable to thin capitalization was adopted. At present, it is difficult to assess the tax consequences of the adoption of this law.

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

The lack of established practice with respect to Russian new transfer pricing rules exposes our business to the risk of significant additional liabilities.

Russian transfer pricing rules, effective since 1999, gave Russian tax authorities the right to control prices for transactions between related parties and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations, if the transaction price deviated by more than 20% from the market price.

In July 2011, Russian transfer pricing legislation was substantially amended. The new rules entered into force on January 1, 2012. The new rules require taxpayers to notify the tax authorities on controlled transactions that are performed from January 1, 2012. Controlled transactions mean any transactions between related parties both domestic and cross-border as well as certain transactions between unrelated parties. The tax legislation eliminated the existed 20% safe harbor for price deviations. The rules also introduce specific documentation requirements for proving market prices. Established practice in applying the new rules only starts to develop, therefore we cannot predict now what effect the new transfer pricing rules will have on our business. If the tax authorities impose significant additional tax assessments as a result of changes in transfer pricing regulation and we are unable to successfully challenge them in court or make symmetrical adjustments provided by the new rules, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

As our subsidiary Southern Urals Nickel Plant holds the subsoil license on land plots with nickel and cobalt ore deposits which are included in the official list of subsoil plots of federal importance published on March 5, 2009 in the Russian official newspaper *Rossiyskaya Gazeta* as amended (the **Strategic Subsoil List**), it qualifies as a Strategic Company and is subject to special regulation. Our subsidiaries Urals Stampings Plant and Port Posiet are included in the register of natural monopolies, and therefore are also Strategic Companies. Furthermore, entities producing and distributing industrial explosives are deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol, Vzryvprom and Korshunov Mining Plant also qualify as Strategic Companies, as they hold licenses to carry out activities related to the handling of industrial explosives.

Therefore, any transfer, directly or indirectly, to a foreign investor or its group of entities (except for the transfer to a foreign investor controlled by the Russian Federation, the constituent entity of the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have other nationality) of a stake or certain rights in or fixed assets (equal to 25% or more of the balance sheet value of the relevant entity) of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant, Urals Stampings Plant and Port Posiet, which, according to the Strategic Industries Law, is deemed to transfer control, as described in Item 4. Information on the Company Regulatory Matters The Strategic Industries Law, will be subject to prior approval from the state authorities. Likewise, a sale to a foreign investor or its group of entities of a stake in Mechel which provides control (as defined in the Strategic Industries Law) over Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant, Urals Stampings Plant and Port Posiet, will also be subject to prior approval in accordance with the Strategic Industries Law.

In addition, in case a foreign investor or its group of entities which is a holder of securities of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant, Urals Stampings Plant and Port Posiet, becomes a holder of voting shares in amount which is considered to give them direct or indirect control over these companies in accordance with the Strategic Industries Law due to the allocation of voting shares as a result of certain corporate procedures provided by Russian law (e.g., as a result of a buy-back by the relevant company of its shares, conversion of preferred shares into common shares, or holders of preferred shares becoming entitled to vote at a general shareholders meeting in cases provided under Russian law), such shareholders will have to apply for approval within three months after they acquired such control.

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

Land use rights regulation in Russia is subject to uncertainty and contradiction.

The main law governing the title to land is the Land Code of the Russian Federation introduced by the Federal Law On Introduction of the Land Code, dated October 25, 2001, as amended (the **Land Code**), which establishes the principles of land legislation and determines relations governed by land legislation.

In March 2015, the Land Code was significantly amended in part concerning the procedure for allotment of land plots by public authorities to citizens and legal entities. Law enforcement practice, taking into account changes in the applicable legislation, has not yet been formed; therefore, risks associated with uncertainty of regulatory aspects of the allotment of land plots by public authorities exist.

In addition, there is a general risk of seizure of land plots for state needs for the implementation of governmental programs and projects, which means creation and construction of complexes within the framework of such federal programs. Moreover, if the land plots owned or leased by us are found not to be in compliance with all applicable approvals, consents, registrations or other regulations, we may lose the use of such land plots.

The ambiguous interpretation of land law and/or a potential seizure of our land plots for state needs or for other reasons may have a material adverse effect on our business, financial condition, results of operations and prospects.

Item 4. *Information on the Company*

Overview

We are a vertically integrated group with revenues of RUB 253,141 million in 2015 and RUB 243,992 million in 2014, with operations organized into three industrial segments: mining, steel and power, each of which has a management company that performs the functions of respective executive management bodies of the companies within the segment, as described below.

Our group includes a number of logistical and marketing companies that help us to deliver and market our products. We have freight seaports in Russia on the Sea of Japan (Port Posiet) and on the Sea of Azov (Port Temryuk) and a freight river port on the Kama River, a tributary of the Volga River in central Russia (Port Kambarka). We have a fleet of freight railcars, locomotives and long-haul trucks, and operate a rail line to our Elga coal deposit in the Sakha Republic.

We have a network of overseas subsidiaries, branches, warehouses, service centers and agents to market our products internationally, and we have a Russian domestic steel retail and service subsidiary with regional offices in 38 cities throughout Russia.

Mechel PAO is a public joint-stock company incorporated under the laws of the Russian Federation. From the date of our incorporation on March 19, 2003 until July 19, 2005, our corporate name was Mechel Steel Group OAO. We conduct our business through a number of subsidiaries. We are registered with the Federal Tax Service of the Russian Federation under main state registration number (OGRN) 1037703012896. Our principal executive offices are located at Krasnoarmeyskaya Street, 1, Moscow 125167, 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 System, located at 111 Eighth Avenue, New York, New York 10011, as our authorized agent upon which process may be served for any suit or proceeding arising out of or relating to our shares, ADSs or the deposit agreements.

Mining Segment

Our mining segment produces metallurgical coal (coking coal, PCI and anthracite), steam coal, iron ore concentrate, coke and limestone.

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

Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky basin, near Mezhdurechensk in Western Siberia. These mines include four open pit mines and three underground mines. Another of our subsidiaries, Yakutugol, operates coal mines located in the Sakha Republic in Eastern Siberia, consisting of two open pit mines and one underground mine. Yakutugol also holds subsoil licenses for three iron ore deposits, located in close proximity to its coal mining operations. In August 2013, we established Elgaugol which holds the subsoil license for the Elga coal deposit, located in the Sakha Republic in Eastern Siberia. Our mining segment also provides coal washing services to our coal mining subsidiaries.

Korshunov Mining Plant operates two open pit iron ore mines and a washing plant located near Zheleznogorsk-Ilimsky, a town in the Irkutsk region in Eastern Siberia.

The mining segment also produces significant amounts of coke, both for use by our subsidiaries in the steel segment and for sales to third parties. We have the flexibility to supply our own steel mills with our mining products or to sell such mining products to third parties, depending on price differentials between local suppliers and foreign and domestic customers.

In April 2008, we established Mechel Mining, a wholly-owned subsidiary, in which we consolidated coal, iron ore and coke assets of our mining segment (Southern Kuzbass Coal Company, Korshunov Mining Plant, Yakutugol, Moscow Coke and Gas Plant and Mechel Coke and certain other companies).

Mechel Mining Management, a wholly-owned subsidiary of Mechel Mining, acts as the sole executive body of our subsidiaries in the mining segment.

Steel Segment

Our steel segment produces and sells semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat steel products and high value-added metal products, including wire products, stampings and forgings.

Our steel production facilities in Russia include one integrated steel mill, one steel-making mill, a wire products plant and forgings and stampings mill in the southern Ural Mountains and a wire products plant in northwestern Russia near the border with Finland. We also have a wire products plant in Lithuania and a steel mill in Ukraine.

In 2014, to further optimize the structure of our group, we transferred our ferrosilicon producing subsidiary Bratsk Ferroalloy Plant to the steel segment.

Mechel-Steel Management, a wholly-owned subsidiary of Mechel, acts as the sole executive body of our main subsidiaries in the steel segment.

Our steel segment also includes our distribution network in Russia and abroad, which consists of Mechel Service Global and its subsidiaries in Russia, the CIS and Europe.

Power Segment

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

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Competitive Strengths

Our main competitive strengths are the following:

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

We are the second largest coking coal producer and exporter by volume in Russia.

In 2015, we were the second largest coking coal producer in Russia, with an approximately 16.7% share of Russia s total coking coal production by volume, according to the Central Dispatching Department of Fuel and Energy Complex (**Central Dispatching Department**), a Russian information agency reporting on the fuel and energy industry. In 2015, our export sales of coking coal concentrate were the second largest by volume among Russian companies, according to RasMin OOO (**RasMin**), a private information and research company focusing on the coal mining industry.

We have a large coal reserve base and a broad-range offering of high-quality metallurgical coals, as well as steam coals of various grades.

Our total coal reserves amounted to 3,051.4 million tonnes as of December 31, 2015, as accounted pursuant to SEC Industry Guide 7.

Our coal reserves allow us to supply steel producers and coke makers globally with a full range of coal grades to make quality metallurgical coke or to use in PCI-assisted and sintering-assisted steel manufacturing. In addition to metallurgical coals, we supply steam coals of various grades. In particular, Southern Kuzbass Coal Company produces semi-hard and semi-soft coking coal, PCI, anthracite and steam coal. Most of the coking and steam coal grades of Southern Kuzbass Coal Company are sold in Russia, while PCI and anthracite are generally exported. Yakutugol produces low-volatile hard coking coal used by customers both in the Asia-Pacific region and in Russia, as well as steam coal which is sold primarily to local municipal services and for power generation. Elgaugol produces high-quality hard coking coal of high-volatile content and steam coal which are supplied to the Russian domestic market and for export. The ability to serve our customers with a broad range of metallurgical and steam coal grades gives us a competitive advantage in entering the new markets and establishing long-term relationships with the customers.

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

According to Metal Expert, a source for global steel and raw materials market news and analytics, in 2015 by production volume we were Russia s second largest producer of long steel products (excluding square billets), third largest producer of reinforcement bars (rebar) and largest producer of wire rod. Our long steel products business has particularly benefited from the increased infrastructure and construction activity in Russia over the last 10 years. Our share of Russia s total production volume of rebar in 2015 was approximately 18.6%, according to Metal Expert. According to Metal Expert and Chermet, a Russian ferrous metals industry association (**Chermet**), we are Russia s fourth largest producer of special steel by production volume, accounting for 13.0% of Russia s total special steel output in 2015. Our product range in special steel is broader and more comprehensive than other Russian producers, giving us an added advantage in our markets. According to Metal Expert, we are Russia s largest producer of wire products by production volume, accounting for 25.5% of Russia s total wire products output in 2015.

High degree of vertical integration

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

We believe that our internal supplies of coke, iron ore concentrate and ferrosilicon give us advantages over other steel producers, such as higher stability of operations, better quality control of end products, reduced production costs, improved flexibility and planning latitude in the production of our steel and value-added steel products and the ability to respond quickly to market demands and cycles. In 2015, we were fully self-sufficient with respect to coke and ferrosilicon; we were approximately 36% self-sufficient with respect to iron ore concentrate; and we satisfied approximately 29% of our electricity needs internally. We believe that the level of our self-sufficiency in raw materials gives our steel business a competitive advantage.

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

Furthermore, we work on improving the quality of our steel products and reducing the costs for raw materials. Depending on prevailing market conditions, we evaluate the efficiency of use of our own raw materials and the raw materials purchased from third parties to be able to generate additional income.

The ability to internally source our materials also gives us better market insight when we negotiate with our outside suppliers, and improves our ability to manage our raw materials costs.

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

We are committed to maximum efficiency in delivering goods to consumers and have been actively developing our own logistics network. Using our own transportation capacity enables us to save costs as we are less exposed to market fluctuations in transportation prices and are able to establish flexible delivery schedules that are convenient for our customers. Our logistics capacities are currently comprised of two seaports (Port Posiet and Port Temryuk) and a river port (Port Kambarka), as well as freight forwarding companies (Mecheltrans, Mecheltrans Vostok and Mecheltrans Auto) which manage rail and motor transportation of our products and carry out the overall coordination of our sea, rail and motor transportation logistics. These companies not only transport our products but also provide transportation services to third parties.

We own two seaports and a river port and we have our own rail rolling stock. Port Posiet in the Russian Far East, on the Sea of Japan, gives us easy access to the Asia-Pacific seaborne market and provides a delivery terminal for the coal mined by our subsidiaries Yakutugol and Elgaugol in Yakutia. We are in the process of the Port Posiet s modernization, which enabled us to expand the cargo-handling capacity of the port up to 7.0 million tonnes per annum. Port Temryuk on the Sea of Azov, an inlet of the Black Sea basin, is primarily used for coal and metal transshipment and provides us access to the emerging market economies of the Black Sea and Mediterranean basins. Port Kambarka on the Kama River in the Republic of Udmurtia (a Russian administrative region also known as Udmurtia) is connected to the Volga River basin and the Caspian Sea, by canal to the Don River and the Sea of Azov, as well as by the Volga-Baltic Route to the Baltic Sea. As of December 31, 2015, our subsidiaries Mecheltrans and Mecheltrans Auto owned and leased 12,455 freight transportation units, including 12,410 railcars and 45 long-haul trucks that we use to ship our products.

In June 2008, pursuant to the terms of our subsoil license for the Elga coal deposit we began construction of a private rail line, which we own and control subject to applicable regulation. In December 2011, we finished laying track for the rail line in accordance with the terms of the license. The 321 kilometer-long rail line is now in operation and we are able to use it for transportation of coal currently produced at the Elga deposit. The rail line connects the Elga coal deposit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network, in general, and Pacific Ocean ports, in particular. We will further develop the rail line to increase its capacity in line with our coal production plans. We anticipate that the Elga rail line will not only provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the transport route for coal, iron ore and other raw materials mined in the adjacent deposits.

One of the lowest-cost metallurgical coal producers

According to CRU International Limited (**CRU**), our Russian metallurgical coal operations are in the first quartile of the global business cost curve (CFR basis). In 2015, approximately 89% of our coking coal production was mined from open pit mines, which we believe is one of the highest rates among our Russian competitors. Open pit coal mining is generally considered safer, cheaper and faster than the underground method of mining. Most of our mines and processing facilities have long and established operating histories. We view strict cost management and increases in productivity as fundamental aspects of our day-to-day operations, and continually reassess and improve the efficiency of our mining operations.

Strategically positioned to supply key growth markets

Our mining and logistical assets are well-positioned to expand sales to the Asia-Pacific seaborne market.

Eastern Siberian coal mines of Yakutugol and Elga coal deposit, which are part of our mining segment, are strategically located and will enable us to expand exports of our products to key Asian markets. Yakutugol and Elgaugol are located within the shortest distance among Russian coking coal producers to Port Posiet and Port Vanino in the Russian Far East. We view the proximity of these mining and logistical assets to the Asian economies as a key competitive advantage which allows us to diversify our sales, provides us with additional growth opportunities and acts as a hedge in the event of a decrease in demand from customers in Russia. Moreover, due to our integration, experience and location in Russia, which has some of the largest deposits of coal and iron ore in the world, we are better positioned than many of our international peers to secure future production growth.

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

Russia is our core steel market and we have significant domestic market shares in main types of carbon and special steel long products. We believe we have established a strong reputation and brand image for Mechel within Russia, just as we have with our international customers. The location of a number of our core steel segment assets in the southern Urals positions us advantageously, from a geographical and logistical perspective, to serve the areas in the west of the Urals as this region is a large consumer of long steel products in Russia, according to Metal Expert. The construction industry has been a major source of our revenue and we have captured a large portion of the market. According to Metal Expert, our share of Russia s total production volume of construction rebar in 2015 was approximately 18.6%.

Established distribution and sales platform

We have a non-retail sales and distribution network represented by our Swiss subsidiaries Mechel Trading and Mechel Carbon with representative offices in various countries, as well as Mechel Carbon Singapore. This network facilitated sales constituting 24.1% of our total sales in 2015.

We also have Mechel Service Global s distribution network which conducts sales of our steel products in Russia, the CIS and Europe. Through our distribution network in Russia and the CIS we sell a whole range of steel products manufactured by our plants. In case of sales to the European Union, we focus on sales of high value-added products, primarily high-quality rolled steel products and forgings produced by our Urals plants, through Mechel Service Belgium. Our companies in Germany, Austria and the Czech Republic provide customers with a wide range of services for metal processing. Mechel Service Global sales accounted for 48.0% of our steel segment sales and 27.7% of our total sales in 2015. Approximately 91.9% of Mechel Service Global sales were sold domestically. Sales to companies within our group accounted for 1.2% of total sales of Mechel Service Global (including intra-group sales) in 2015.

Our direct access to end customers allows us to obtain real-time market intelligence and improve production planning at our steel facilities, which in turn allows us to improve the efficiency of our existing operations through the optimization of our sales structure.

Strong and focused management team

Our current management team has significant experience in all aspects of our businesses. Mr. Zyuzin, one of the founders of our group and our Chairman and largest shareholder, has led our successful transformation from a small coal trading operation to a large integrated mining and metals group. Mr. Zyuzin has over 29 years of experience in the coal mining industry and holds a Ph.D. in technical sciences in the coal mining field. Our divisional management also has long-tenured experience in the mining and metals industry. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers.

Business Strategy

Our goal is to become one of the largest producers of metallurgical coal and steel products by realizing potential of the vertical integration and maximizing synergies between our performing assets underlying our business model.

Our strategy aimed at extracting the maximum value from our mining and steel assets. We intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability.

In the mining segment, we will continue to develop our existing coal reserves, particularly in order to sell more high-quality metallurgical coal and coal products to third parties. We intend to prioritize the development of the Elga coal deposit, one of the largest global metallurgical coal reserves. Our coking coal and iron ore production form a solid platform for our steel business. Steam coal can be used to feed our power generating business which enables us to market high value-added products, such as electricity and heat energy, and to increase the electric power self-sufficiency of our mining and steel segments. However, even as we develop our internal sourcing capability, we intend to adhere to our long-standing approach of purchasing inputs from third party suppliers and selling products, including raw materials, to domestic and international customers in a way that we believe creates the most advantageous profit opportunities for our group.

In the steel segment, we plan to focus on the Russian rail, engineering and construction markets. The launch of the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant allowed us to widen our portfolio of high value-added products such as structural shapes and rails, as well as significantly improve our competitive advantage as a full product range supplier to the construction sector and as an important supplier to the Russian Railways. In 2015, we successfully went through the certification of rail products resulting in obtainment of three certificates of conformity of the Customs Union. The increase in sales volume of the universal rolling mill products will occur along with the development and certification of new types of products and will enable us to realize the import substitution strategy. We intend to increase our group s output and improve the quality of high value-added steel products in order to preserve our leadership in special and stainless steels and wire products in Russia. For some of these products, we hold a unique market niche, which serves as the basis for further improvement of our market share and growth of our customer base.

Our distribution network provides us with a strong platform for further development of our sales. In the current economic situation, we are capable to quickly respond to changing market conditions and if necessary redirect deliveries of our products not only in Russia but abroad, thereby allowing us to obtain additional profit.

Another strategic priority is development of our logistics capabilities. Our own railcar fleet is to ensure the balance between transportation security and cost efficiency. Development of the cargo-handling capacity of Port Posiet is crucial for continuous shipments of our coal products in the Asia-Pacific region. Growing production of export-oriented coal in our mining segment will require further expansion of port capacities on our main export routes.

With focus on efficiency improvements of our main businesses, we may also consider selective disposal of assets in order to minimize opportunity costs, as well as attract financial or strategic investors to our key assets in order to reduce the debt burden and contribute to business development.

Our History and Development

We trace our beginnings to a small coal trading operation in Mezhdurechensk in the southwestern part of Siberia in the early 1990s. See Item 5. Operating and Financial Review and Prospects History of Incorporation. Since that time, through strategic acquisitions in Russia and abroad, Mechel has developed into one of the world s leading mining and metals companies, comprising producers of coal, iron ore, coke, steel, rolled products, ferrosilicon, heat energy and electricity, with operations and assets in Russia, the CIS and Europe. We intend to retain a controlling voting interest in each of our subsidiary holding companies as we continue to build upon our business model of vertical integration among our assets.

Mining Segment

Our mining segment produces coking coal and other types of metallurgical coal (anthracite and coal for pulverized, or finely crushed, coal injection (PCI)), steam coal, middlings, coking coal and steam coal concentrates, as well as coke and chemical products, iron ore, iron ore concentrate and limestone. Our mining segment also includes certain transportation and logistics facilities and engineering operations. Our coal operations consist of Southern Kuzbass Coal Company, Yakutugol and Elgaugol, which together produced 13.8 million tonnes of raw coking coal, 6.9 million tonnes of raw steam coal and 2.5 million tonnes of raw anthracite in 2015. Our coke operations consist of Moscow Coke and Gas Plant and Mechel Coke, which together produced 3.0 million tonnes of coke in 2015. Our iron ore operations consist of Korshunov Mining Plant which produced 7.8 million tonnes of iron ore and 2.7 million tonnes of iron ore concentrate in 2015. Our limestone operations consist of Pugachevsky Open Pit which produced 1.6 million tonnes of limestone in 2015.

Description of key products

Coking coal and metallurgical coal. Southern Kuzbass Coal Company produces high-quality bituminous coal, which is washed to reduce the ash content. The premier product is a high-quality, low phosphorous, low sulfur semi-soft to semi-hard coking coal used to produce coke for the iron and steel industry. Other products produced by Southern Kuzbass Coal Company include PCI and anthracite. Yakutugol produces hard coking coal of low-volatile content. Elgaugol produces high-quality hard coking coal of high-volatile content.

Steam coal. Southern Kuzbass Coal Company, Yakutugol and Elgaugol produce high-energy steam coal as part of their product mix. Steam coal is primarily used for the generation of electricity in coal-fired power stations.

Coke. Coke is used in the blast furnace as a main source of heat, a reducing agent for iron and a raising agent for charging material in the smelting process. It is a product prepared by pyrolysis (heating in the absence of oxygen) of low-ash, low-phosphorus and low-sulfur coal charging material. We offer customers coke from our Moscow Coke and Gas Plant and Mechel Coke.

Chemical products. Chemical products are hydrocarbon products obtained as a by-product of the production of coke. We produce chemical products in our subsidiaries Moscow Coke and Gas Plant and Mechel Coke. We offer our customers coal tar, naphthalene and other compounds. Worldwide, coal tar is used in diverse applications, including in the production of electrode pitch, pitch coke, coal-tar oils, naphthalene, as well as boiler fuel. Naphthalene, a product of the distillation of coal tar, is used by the chemical industry to produce chemical compounds used in synthetic dyes, solvents, plasticizers and other products.

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Iron ore concentrate. From our Korshunov Mining Plant we offer iron ore concentrate with a standard iron content of 62%. Yakutugol holds subsoil licenses for three iron ore deposits located in Yakutia. These deposits contain high-quality iron ore, which will allow to produce iron ore concentrate with 65% iron content.

Limestone. The processed limestone produced by our Pugachevsky Open Pit is segregated into three main size fractions: 0-40 millimeters, 40-70 millimeters and 70-120 millimeters. Further processing of 0-40 millimeters fraction limestone allows to obtain aggregate limestone of 0-5 millimeters, 5-20 millimeters and 20-40 millimeters categories.

Mining process

Coal. At our Russian mines, coal is mined using open pit or underground mining methods. Following a drilling and blasting stage, a combination of shovels and draglines is used for moving coal and waste at our open pit mines. Production at the underground mines is predominantly from longwall mining, a form of underground coal mining where a long wall of coal in a seam is mined in a single slice. After mining, depending upon the amount of impurities in the coal, the coal is processed in a washing plant, where it is crushed and impurities are removed by gravity methods. Coking coal concentrate is then transported to coking plants for conversion to coke for use in pig iron smelting at steel plants. Steam coal is shipped to power utilities which use it in furnaces for steam generation to produce electricity. Among the advantages of our mining business are the high quality of our coking coal and the low level of volatile matter in our steam coal.

Iron ore. At our Korshunov Mining Plant, ore is mined using the open pit mining method. Following a drilling and blasting stage, ore is hauled by dump trucks and rail hopper cars to the washing plant. At the washing plant, the ore is crushed and ground to a fine particle size, then separated into an iron ore concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded to a concentrate that contains about 62% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the washing plant. The concentrate is sent to disk vacuum filters which remove the water from the concentrate to reduce the moisture level, enabling shipment to customers by rail during warmer months; in colder periods the concentrate must be dried further to prevent freezing in railcars. Korshunov Mining Plant operates its own drying facility with a dry concentrate production capacity of up to 16,000 tonnes per day. In 2011-2012, Yakutugol obtained subsoil licenses for the Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit in Yakutia. We plan to develop all new iron ore deposits with the open pit mining method, using excavators and dump trucks.

Limestone. Limestone is mined using the open pit mining method. Following a drilling and blasting stage, mined rock is quarried with shovels and transported to the crushing and screening plant for segregation by size fraction.

Coal production

Our coal production consists of the following mines in Russia:

Subsidiary (Location)	Surface	Underground
Yakutugol (Sakha Republic, Russia)	Neryungrinsky Open Pit Kangalassky Open Pit	Dzhebariki-Khaya Underground
Elgaugol (Sakha Republic, Russia)	Elga Open Pit	
Southern Kuzbass Coal Company (Kuzbass, Russia)	Sibirginsky Open Pit	V.I. Lenina Underground Sibirginskaya Underground
	Tomusinsky Open Pit	Olzherasskaya-

Olzherassky Open Pit Novaya Underground

Krasnogorsky Open Pit

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

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

	2015		2014	
	Tonnes	% of Production	Tonnes	% of Production
	(In millions of tonnes)[1]			
Coking Coal				
Yakutugol	7.8		8.9	
Elgaugol	2.6		0.7	
Southern Kuzbass Coal Company	3.4		4.3	
Bluestone[2]			0	
Total Coking Coal	13.8	59.5%	13.9	61.5%
Steam Coal				
Yakutugol	1.4		0.5	
Elgaugol	1.3		0.5	
Southern Kuzbass Coal Company	4.2		5.4	
Bluestone[2]			0	
Total Steam Coal	6.9	29.7%	6.4	28.3%
Anthracite				
Yakutugol				
Elgaugol				
Southern Kuzbass Coal Company	2.5		2.3	
Bluestone[2]				
Total Anthracite	2.5	10.8%	2.3	10.2%
Total Coal	23.2	100%	22.6	100%

(1) Volumes are reported on a wet basis.

(2) In January-February 2014, we temporarily idled our Bluestone mines due to adverse market conditions. In February 2015, we disposed of Bluestone mining business.

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

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

	2015		2014	
	Tonnes	% of Production	Tonnes	% of Production
	(In millions of tonnes)			
Coking Coal				
Yakutugol	5.1	25%	5.7	26%
Elgaugol	1.6	8%	0.2	1%
Southern Kuzbass Coal Company	2.7	13%	4.0	19%
Bluestone(1)			0	0%
Total Coking Coal	9.4	46%	9.9	46%
PCI				
Yakutugol				
Elgaugol				
Southern Kuzbass Coal Company	2.0	9%	2.6	12%
Bluestone(1)				
Total PCI	2.0	9%	2.6	12%
Anthracite				
Yakutugol				
Elgaugol				
Southern Kuzbass Coal Company	2.1	10%	1.5	7%
Bluestone(1)				
Total Anthracite	2.1	10%	1.5	7%
Steam Coal				
Yakutugol	3.5	17%	2.9	14%
Elgaugol	1.6	8%	0.5	2%
Southern Kuzbass Coal Company	2.0	10%	4.2	19%
Bluestone(1)			0	0%
Total Steam Coal	7.1	35%	7.6	35%
Total Coal	20.6	100%	21.6	100%

(1) In January-February 2014, we temporarily idled our Bluestone mines due to adverse market conditions. In February 2015, we disposed of Bluestone mining business.

Yakutugol mines

Our Yakutugol coal mines are located in the Sakha Republic. The Sakha Republic is located in Eastern Siberia and covers an area of 3.1 million square kilometers. It has a population of fewer than one million inhabitants. Its capital, Yakutsk, is located on the Lena River in south central Yakutia.

Our Yakutugol mines include two open pit mines and one underground mine: Neryungrinsky Open Pit, Kangalassky Open Pit and Dzhebariki-Khaya Underground. Neryungrinsky Open Pit is located in the South-Yakutsky basin which covers an area of 25,000 square kilometers and lies near the southern border of Yakutia. Neryungrinsky Open Pit is located near the town of Neryungri, one of the main industrial centers of Yakutia and its second largest city. Kangalassky Open Pit and Dzhebariki-Khaya Underground are located in the Lensky basin which covers an area of 750,000 square kilometers and lies near Yakutsk.

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The table below sets forth certain information regarding the subsoil licenses for our Yakutugol coal mines.

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[(1)]	Year Production Commenced	Surface Land Use Rights
Neryungrinsky Open Pit	12336 (Moshchny seam)	15.3	Open pit	2029	Dec 2024	In production	1979	Ownership
Kangalassky Open Pit	15017 (Kangalassk)	7.7	Open pit	2100	Dec 2027	In production	1962	Ownership
Dzhebariki-Khaya Underground	15061 (Dzhebariki-Khaya)	14.8	Underground	2036	Dec 2023	In production	1972	Ownership

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

The earliest production at our Yakutugol mines was in 1962, although we acquired these mines and license areas in October 2007. Neryungrinsky Open Pit produces low-volatile hard coking coal and steam coal which are sold both in the Asia-Pacific region and domestically. Neryungrinsky Open Pit has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. Kangalassky Open Pit produces steam coal that is sold as fuel for boiler plants in Yakutia. It is accessible through an all-weather road from Kangalassy and through a highway from Yakutsk. Dzhebariki-Khaya Underground produces steam coal, most of which is sold to state housing and municipal services. Dzhebariki-Khaya Underground is accessible only by means of the Aldan River.

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

Mine	2015 Tonnes	2015 % of Total Production	2014 Tonnes	2014 % of Total Production
	(In millions of tonnes)[(1)]			
Coking Coal				
Neryungrinsky Open Pit	7.8		8.9	
Total Coking Coal	7.8	84.9%	8.9	94.7%
Steam Coal				
Neryungrinsky Open Pit	0.7		0.1	
Dzhebariki-Khaya Underground	0.5		0.3	
Kangalassky Open Pit	0.2		0.1	
Total Steam Coal	1.4	15.1%	0.5	5.3%

Total Coal	9.2	100%	9.4	100%

(1) Volumes are reported on a wet basis.

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

Coal Type	**Region**	**2015**	**2014**
		(In thousands of tonnes)	
Coking coal	Asia	3,609.7	5,268.1
	Russia	894.5	11.6
	CIS	9.8	60.1
	Europe	0.5	0.0
Total		4,514.5	5,339.8
Steam coal	Russia	776.8	630.4
	Asia	124.7	0.0
Total		901.5	630.4
Middlings	Russia	1,647.9	1,705.2
	Asia	476.1	662.7
Total		2,124.0	2,367.9
Total		7,540.0	8,338.1

Elgaugol mine

Our Elga Open Pit is located in the South-Yakutsky basin of the Toko Coal-Bearing region in the Sakha Republic. This coal region was first discovered and explored in 1952 with the first geological surveys being conducted in 1954 through 1956. The closest inhabited localities are Verkhnezeysk village, located 320 kilometers south of the deposit, and the town of Neryungri, located 415 kilometers to the west. Since 1998, there have been several studies on the Elga coal deposit, including geology and resources, mine planning and feasibility studies. Overburden removal at the Elga deposit commenced in November 2010. Coal mining at Elga Open Pit commenced in August 2011.

Our subsidiary Elgaugol was established on August 14, 2013 under the laws of the Russian Federation with Yakutugol and Mechel Mining as participants for raising project financing from Vnesheconombank. In September 2013, Vnesheconombank s Supervisory Board approved a $2.5 billion project financing for the construction of the first stage of the Elga coal complex and the relevant loan agreements were signed in March 2014.

In August 2013, the board of directors of Yakutugol decided to transfer the subsoil license for the Elga coal deposit to Elgaugol. In January 2014, Elgaugol obtained the respective subsoil license.

The table below sets forth certain information regarding the subsoil license for our Elgaugol mine.

Mine	**License (plot)**	**Area (sq. km)**	**Mining Method**	**Life of Mine**	**License Expiry Date**	**Status[(1)]**	**Year Production Commenced**	**Surface Land Use Rights**

Elga Open Pit	03730 (Elga)	144.1	Open pit	2100	May 2020	In production	2011	Lease

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

Elga Open Pit produces two types of coal: high-quality hard coking coal (high-volatile) and steam coal. It also produces middlings (by-product of the coking coal washing process). Coking coal, steam coal and middlings are sold both domestically and in the Asia-Pacific market with transshipment in ports of the Russian Far East.

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

	2015		2014	
Mine	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**
		(In millions of tonnes)[1]		
Coking Coal				
Elga Open Pit	2.6		0.7	
Total Coking Coal	2.6	66.7%	0.7	58.3%
Steam Coal				
Elga Open Pit	1.3		0.5	
Total Steam Coal	1.3	33.3%	0.5	41.7%
Total Coal	3.9	100%	1.2	100%

(1) Volumes are reported on a wet basis.

The table below sets forth coal sales volumes of our Elgaugol mine by type of coal and destinations for the periods indicated.

Coal Type	**Region**	**2015**	**2014**
		(In thousands of tonnes)	
Coking coal	Asia	11.8	34.6
Total		11.8	34.6
Steam coal	Asia	1,201.5	319.9
	Russia	209.0	149.1
Total		1,410.5	469.0
Middlings	Asia	152.8	164.7
Total		152.8	164.7
Total		1,575.1	668.3

In 2009, the general scheme of the Elga coal complex development and the plan for initial mine block development were prepared. The plan for initial mine block development was subsequently approved by governmental authorities. In 2011, the project documentation of the first stage of the Elga coal complex construction was prepared and subsequently approved by governmental authorities. In November 2011, we concluded a contract for engineering, procurement and construction of a permanent housing complex for 3,000 miners and workers who will operate the Elga coal complex. Construction works are in progress, and miners live in a temporary settlement with all necessary amenities. In late 2014, we completed the construction of a pilot washing plant with a capacity of up to 2.7 million tonnes per annum and the capability to operate year-round.

In December 2011, we finished laying track for the rail line to the Elga deposit. The 321 kilometer-long rail line is now in operation and we are able to use it for transportation of coal produced at Elga Open Pit. The rail line connects Elga Open Pit with the Baikal-Amur Mainline (at the Ulak railway station), which, in turn, provides access to the Russian rail network, in general, and Pacific Ocean ports, in particular. We will further develop the rail line to increase its capacity in line with the production capacity requirements of the Elga subsoil license and our production plans.

Currently, Elga has an electricity substation with diesel power generators with a total installed capacity of 9 megawatts (**MW**). Federal Grid Company, the state-owned operator of the unified national electric grid, is installing high-voltage transmission lines to deliver electricity from the Zeysky hydro power plant located

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270 kilometers from the site, and we are constructing electricity-receiving infrastructure capable of receiving 134 MW. We expect to start receiving electricity from this power plant in the fourth quarter of 2017.

In accordance with the order of the Federal Agency for Subsoil Use (**Rosnedra**) No. 177 dated February 27, 2015 On the conducting of a one-time updating of subsoil licenses, we filed an application with the Department for Subsoil Use for the Sakha Republic (Yakutia) regarding conduct of an update procedure relating to the terms of the subsoil license for the Elga coal deposit. In December 2015, the Department for Subsoil Use for the Sakha Republic (Yakutia) made a decision to update the existing terms and issued an amendment to the subsoil license. The amendments provide that the level of coal extraction and deadlines of reaching the design capacity are determined by the deposit development technical plan.

In the event of significant deviations from the design solutions, we can prepare and duly approve the adjustment of the current technical plan in order to avoid violation of the terms of subsoil use. Thus, the amended license terms allow us to manage licensing risks by adjusting the project documentation which significantly reduces the risk of suspension of the subsoil license in the event of a deviation from the design solutions. See also Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry The development of the Elga coal deposit is subject to certain risks due to the substantial amount of capital costs involved in developing the required infrastructure.

Southern Kuzbass mines

The Kuznetsky basin, or Kuzbass, is located in the southeastern part of Western Siberia and is one of the largest coal mining areas in the world, covering an area of around 70,000 square kilometers. Coal-bearing seams extend over an area of 26,700 square kilometers and reach a depth of up to 1,800 meters. Coal was discovered in 1721, and systematic mining started in 1851. During the Soviet era, Kuzbass was the second largest regional coal producer. According to the Central Dispatching Department, Kuzbass (Kemerovo region) now accounts for about 58% of Russia s total coal production.

All of our Southern Kuzbass mines are located in southeast Kuzbass around the town of Mezhdurechensk in the Kemerovo region, with the exception of the Yerunakovskaya mine area, which is located about 100 kilometers northwest of Mezhdurechensk.

The earliest production at our Southern Kuzbass mines was in 1953, although we acquired these mines and license areas starting in the 1990s. The Southern Kuzbass mines include four open pit mines, three underground mines and one underground mine under development: Sibirginsky Open Pit, Tomusinsky Open Pit, Olzherassky Open Pit, Krasnogorsky Open Pit, V.I. Lenina Underground, Sibirginskaya Underground, Olzherasskaya-Novaya Underground and Yerunakovskaya-1 Underground (project).

Our Southern Kuzbass mines and the related washing plants produce semi-soft and semi-hard coking coal, anthracite, PCI and steam coal. Our Kuzbass operations are connected by rail to the Trans-Siberian Mainline and substantially all products are shipped by rail. Products are generally shipped by rail to Russian customers, to Baltic ports for European customers, to Port Posiet and Port Vanino for export to Asia and to Port Temryuk for customers in the Black Sea and Mediterranean basins.

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The table below sets forth certain information regarding the subsoil licenses for our coal mines in Kuzbass, all of which are held by our subsidiary Southern Kuzbass Coal Company, unless otherwise noted.

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[1]	Year Production Commenced	Surface Land Use Rights
Krasnogorsky Open Pit	14016 (Tomsk, Sibirginsk)	22.4	Open pit	2055	Jan 2021	In production	1954	Lease
	13367 (Sorokinsk, Tomsk, Sibirginsk)	2.8			Nov 2025	In production	2012	Lease
Olzherassky Open Pit	01374 (Raspadsk, Berezovsk, Sosnovsk)	9.3	Open pit	2050	Dec 2029	In production	1980	Lease
	12939 (Raspadsk)[2]	3.5			Dec 2024	Development	n/a	Lease
	12940 (Berezovsk-2, Berezovsk, Olzherassk)	4.8			Dec 2024	In production	2007	Lease
	01917 (Berezovsk Gluboky)	7.4			Aug 2035	Exploration and development	n/a	Lease
Tomusinsky Open Pit	13312 (Tomsk)[3]	6.7	Open pit	2028	Dec 2020	In production	1959	Lease
Sibirginsky Open Pit	13639 (Sibirginsk, Kureinsk, Uregolsk)	17.7	Open pit	2055	Dec 2032	In production	1970	Lease
	01557 (New-Uregolsk)	2.4			Apr 2031	In production	2011	Lease
Sibirginskaya Underground	12917 (Sibirginsk, Tomsk)	5.9	Underground	2058	Dec 2024	In production	2002	Lease
	15463 (Sibirginsk-2, Sibirginsk, Kureinsk)	0.9			Dec 2032	In production	2014	Lease
	01914 (Sibirginsk-3)	7.6			Aug 2035	Exploration and development	n/a	
V.I. Lenina Underground	14060 (Olzherassk)	10.0	Underground	2050	Dec 2032	In production	1953	Lease
	01701 (Granichny, Olzherassk)	1.2			Feb 2033	Exploration and development	n/a	
Olzherasskaya-Novaya Underground	14199 (Raspadsk)	1.2	Underground	2035	Dec 2021	In production	2008	Lease
	01471 (Olzherassk-2, Raspadsk)	0.03			Jan 2030	In production	2010	Lease
	13366 (Razvedochny, Raspadsk)	14.6			Nov 2025	In production	2010	Lease
Yerunakovskaya-1 Underground (project)	13237 (Yerunakovsk-1, Yerunakovsk)[4]	8.4	Underground	2033	Jun 2025	Development	n/a	Lease

Yerunakovskaya-3 Underground (prospect)	13238	(Yerunakovsk-3, Yerunakovsk)(4)	7.1	Underground	2115	Jun 2025	Development	n/a
Yerunakovskaya-2 Underground (prospect)	13271	(Yerunakovsk-2, Yerunakovsk)(4)(5)	7.3	Underground	2051	Jul 2025	Development	n/a
Olzherasskaya-Glubokaya Underground (prospect)	13365	(Olzherassk)	19.2	Underground	2211	Nov 2025	Development	n/a
Usinskaya Underground (prospect)	14093	(Olzherassk)	3.6	Underground	2071	Dec 2033	Conservation	n/a

(1) In production refers to sites that are currently producing coal. Development refers to sites where preliminary work is being carried out. Exploration refers to sites where drilling for calculation of mineral

reserves is being carried out. Exploration and development refers to sites where preliminary work and drilling for calculation of mineral reserves are being carried out. Conservation refers to sites where no mining activity is conducted, but measures for mine conservation are being taken.

(2) We failed to commence commercial production in 2009 as required by the subsoil license due to unfavorable mine economics. We expect to commence production at the Raspadsk license area in the fourth quarter of 2018 provided coal prices recover sufficiently.

(3) License held by Tomusinsky Open Pit, a subsidiary of Southern Kuzbass Coal Company.

(4) We failed to commence commercial production in 2011 as required by the subsoil license due to unfavorable mine economics.

(5) License held by Resurs-Ugol OOO, a subsidiary of Southern Kuzbass Coal Company.

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

	2015		2014	
Mine	**Tonnes**	**% of Total Production**	**Tonnes**	**% of Total Production**
		(In millions of tonnes)[1]		
Coking Coal				
Sibirginsky Open Pit	0.5		1.2	
Tomusinsky Open Pit	0.8		0.9	
V.I. Lenina Underground	0.4		0.7	
Sibirginskaya Underground	1.1		1.0	
Olzherassky Open Pit	0.6		0.5	
Total Coking Coal	3.4	33.7%	4.3	35.8%
Steam Coal				
Krasnogorsky Open Pit	2.7		2.8	
Sibirginsky Open Pit	0.5		0.8	
Olzherassky Open Pit	0.0		0.1	
Olzherasskaya-Novaya Underground	0.3		0.8	
Tomusinsky Open Pit	0.7		0.9	
Total Steam Coal	4.2	41.6%	5.4	45.0%
Anthracite				
Krasnogorsky Open Pit	2.5		2.3	
Sibirginsky Open Pit				
Olzherassky Open Pit				
Olzherasskaya-Novaya Underground				
Tomusinsky Open Pit				
Total Anthracite	2.5	24.7%	2.3	19.2%
Total Coal	10.1	100%	12.0	100%

(1) Volumes are reported on a wet basis.

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

Coal Type	Region	2015	2014
		(In thousands of tonnes)	
Coking coal	Russia	492.2	1,407.2
	Asia	227.4	955.7
	CIS	0.0	40.1
Total		719.6	2,403.0
Anthracite	Europe	1,241.2	1,200.5
	Asia	321.7	336.5
	Other	73.4	76.2
	CIS	68.2	183.3
	Russia	42.3	36.3
	Middle East(1)	14.9	24.5
Total		1,761.7	1,857.3
PCI	Asia	1,684.3	1,870.8
	Europe	473.5	837.8
	Middle East(1)	91.5	338.5
	Russia	4.7	0.0
	CIS	0.0	4.1
Total		2,254.0	3,051.2
Steam coal	Asia	122.2	26.2
	Middle East(1)	96.7	152.2
	Russia	30.4	38.6
	CIS	15.5	392.8
	Europe	11.6	13.9
Total		276.4	623.7
Middlings	Asia	0.0	94.0
Total		0.0	94.0
Total		5,011.7	8,029.2

(1) Includes Turkey only.

Coal washing plants

We operate six coal washing plants and one processing unit in Russia: four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass, one coal washing plant located near Neryungrinsky Open Pit and one coal washing plant at Elga Open Pit.

Our four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass have an aggregate annual capacity of approximately 17.0 million tonnes of ROM coal. These are Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. These washing plants have aggregate storage capacity for saleable products of 175,200 tonnes, including 77,000 tonnes of additional capacity, of which 27.5% is covered storage.

Neryungrinskaya Washing Plant located near Neryungrinsky Open Pit has an annual capacity of 9.0 million tonnes. The plant produces coking coal concentrate and middlings.

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In October 2012, we launched a pilot seasonal washing plant for Elga Open Pit, which operated in the warmer months of April to October only, with a seasonal capacity of 2.0 million tonnes per annum. In late 2014, we completed the transfer of the pilot seasonal washing plant to year-round operation with a capacity of up to 2.7 million tonnes per annum.

All of the coal feedstock enriched by our washing plants in 2015 (20.2 million tonnes) was supplied by our own mining operations.

Coke and chemical products production

The following table lists the various types and grades of coke and chemical products we produce and sell. We also produce and sell coke gas.

Plant	**Products**
Moscow Coke and Gas Plant	Coke +40 mm, Coke 25-40 mm, Coke nut 10-25 mm, Coke breeze 0-10 mm, Coal benzene, Coal tar, Coke gas
Mechel Coke	Coke +40 mm, Coke +25 mm, Coke 25-40 mm, Coke nut 10-25 mm, Coke breeze 0-10 mm, Coal benzene, Coal tar, Ammonium sulfate, Coke gas

We have two coke plants, one of which is located in the city of Chelyabinsk and the other in the Moscow region. Coke is prepared by pyrolysis (heating in the absence of oxygen) of low-ash, low-phosphorus and low-sulfur coal. Coke is used in the blast furnace as a main source of heat, a reducing agent for iron and a raising agent for charging material in the smelting process.

In addition, we produce coke nut, which is smaller in size than metallurgical coke and is principally used as a reducing agent in ferroalloys production and for other purposes, and coke breeze, which is even smaller in size and is principally used for sintering iron ore concentrate prior to its use in blast furnaces or as fuel. Coke production and sales volumes figures presented herein include, among others, coke nut and coke breeze. Additional chemical products, such as coal benzene, coal tar and ammonium sulfate, are obtained as by-products in the coke production process.

The table below summarizes our production of coke, chemical products and coke gas for the periods indicated.

	2015	**2014**
	(Coke and chemical products in thousands of tonnes) (Coke gas in millions of cubic meters)	
Mechel Coke		
Coke (6% moisture)	2,313	2,586
Chemical products	112	119
Coke gas	851	835
Moscow Coke and Gas Plant		
Coke (6% moisture)	723	799

Chemical products	38	41
Coke gas	319	367
Total		
Coke (6% moisture)	3,036	3,385
Chemical products	150	160
Coke gas	1,170	1,202

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

	2015	2014
	(In thousands of tonnes)	
Coke	985	1,262
Chemical products	155	173

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

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
		(In thousands of tonnes)	
Coke (6% moisture)	976	74.1%	

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

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Decrease (2016-2018)
		(In thousands of tonnes)	
Coke (6% moisture)	3,044	76.0%	155

Our own production facilities purchase a substantial majority of our coke production. For the years ended December 31, 2015 and 2014, purchases of our coke by our own production facilities amounted to 1.9 million tonnes and 2.0 million tonnes, respectively, which represented 66% and 61% of our total coke sales volumes (including intra-group sales) for those periods.

We purchase some coking coal from other producers in order to produce coke. The need to purchase coking coal from third parties for coke production varies from period to period, depending on customer demand for particular products and the availability of suitable coal grades from our own mines.

Iron ore and concentrate production

Our iron ore operations consist of Korshunov Mining Plant which operates Korshunovsky Open Pit, Rudnogorsky Open Pit and Korshunovskaya Washing Plant, and three subsoil licenses held by Yakutugol for the Pionerskoye iron ore deposit, the Sivaglinskoye iron ore deposit and the Sutamskaya iron ore area in Yakutia.

Korshunovskaya Washing Plant is located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of Bratsk in the Irkutsk region. Korshunovsky Open Pit is located near the washing plant and Rudnogorsky Open Pit is located about 85 kilometers to the northwest of the washing plant. We have operated these iron ore mines and the washing plant since 2003 when we acquired Korshunov Mining Plant. Both mines produce a magnetite ore (Fe_3O_4) and the washing plant produces iron ore concentrate with a standard iron content of 62%. Product is shipped by rail to domestic customers as well as for export sales. All of the sites are served by regional public highways and a nearby federal motorway. The area is served by the Baikal-Amur Mainline, which connects the Trans-Siberian Mainline with

China and Yakutia.

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The table below sets forth certain information regarding the subsoil licenses for our iron ore mines, all of which are held by our subsidiary Korshunov Mining Plant.

Mine	License (plot)	Area (sq. km)	Mining Method	License Expiry Date	Status[(1)]	Year Production Commenced	Surface Land Use Rights
Korshunovsky Open Pit	14051 (Korshunovsk)	4.2	Open pit	Apr 2019	In production	1965	Lease
Rudnogorsky Open Pit	14052 (Rudnogorsk)	5.1	Open pit	Jan 2028	In production	1984	Ownership

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

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

Mine	2015 Tonnes	2015 Grade (% Fe)	2014 Tonnes	2014 Grade (% Fe)
	(In millions of tonnes)[(1)]			
Korshunovsky Open Pit	3.3	24.2%	4.8	23.5%
Rudnogorsky Open Pit	4.5	30.6%	4.4	29.6%
Total ore production	7.8	27.9%	9.2	26.4%
Iron ore concentrate production	2.7	63.2%	3.2	63.2%

(1) Volumes are reported on a wet basis.

In 2011-2012, we obtained subsoil licenses for three iron ore deposits: the Pionerskoye deposit, the Sivaglinskoye deposit and the Sutamskaya area which are held by Yakutugol. The Pionerskoye deposit is located in Yakutia about 127 kilometers from the town of Neryungri. The area is well connected to the regional transportation network with a federal motorway located 5 kilometers to the east of the deposit. The Sivaglinskoye deposit is 120 kilometers away from Neryungri and located close to the Pionerskoye deposit. The Sutamskaya area is located 210 kilometers south-east of Neryungri. These deposits contain high-quality iron ore, which will allow to produce iron ore concentrate with 65% iron content.

The table below sets forth certain information regarding the subsoil licenses for our iron ore deposits, all of which are held by our subsidiary Yakutugol.

Deposit	License (plot)	Area (sq. km)	Mining Method	License Expiry Date	Status(1)	Year Production Commenced	Surface Land Use Rights
Pionerskoye	03034 (Pionersk)	9.95	Open pit	Aug 2031	Exploration	n/a	Lease
Sivaglinskoye	03153 (Sivaglinsk)	2.23	Open pit	Mar 2022	Exploration	n/a	Lease
Sutamskaya area	03158 (Sutamskaya area)	731.32	Open pit	Mar 2037	No activity	n/a	

(1) Exploration refers to sites where drilling for calculation of mineral reserves is being carried out.

Limestone production

The Pugachevsky limestone quarry is an open pit mine located approximately nine kilometers southwest of Beloretsk in the Ural Mountains. The mine has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. The quarry was developed in 1951 to support Beloretsk Metallurgical Plant s steel-making facilities, which are currently closed. Pugachevsky Open Pit, which we acquired in 2002, was

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owned by our Beloretsk Metallurgical Plant until the second half of 2011. In the second half of 2011, a 100% interest in Pugachevsky Open Pit was transferred to our subsidiary Mechel Materials. The current subsoil license is valid until January 2034.

The quarry produces both high-grade flux limestone for use in steel-making and ferronickel production and aggregate limestone for use in road construction. The flux limestone and aggregate limestone are the same grade of limestone, but they are produced in different fraction sizes, which determine their suitability for a particular use. In 2015, approximately 47.5% of the limestone produced at Pugachevsky Open Pit was used internally as auxiliary, with 45.4% shipped to Chelyabinsk Metallurgical Plant, 1.2% to Izhstal and 0.9% to other our group companies; approximately 16.8% was sold to third parties; and approximately 35.7% remained in the warehouse and partly was used for internal needs of the quarry. We are capable of internally sourcing 100% of the limestone requirements of our steel operations.

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

	2015	2014
	(In thousands of tonnes)	
Pugachevsky Open Pit	1,637	1,762

Sales of mining segment products

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

Product	2015	2014	2015	2014
	(In thousands of tonnes)(1)		(% of total sales, including intra-group)	
Coking coal concentrate	5,246.0	7,777.4	63.9%	77.1%
Steam coal and middlings	4,880.3	4,375.6	74.4%	74.6%
Anthracite and PCI	4,066.7	4,996.1	94.0%	96.6%
Iron ore concentrate	488.9	1,168.7	17.4%	37.5%
Coke	984.8	1,262.0	33.8%	39.0%
Chemical products	154.7	173.0	98.8%	99.7%

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

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The following table sets forth revenues by product, as further divided between domestic sales and exports (including as a percentage of total mining segment revenues) for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 28 to the consolidated financial statements.

	2015		2014	
Product	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of Russian rubles, except for percentages)			
Coking coal concentrate	27,209.6	33.7%	30,645.3	38.5%
Domestic Sales	28.0%		17.5%	
Export	72.0%		82.5%	
Steam coal	7,236.0	9.0%	4,337.1	5.5%
Domestic Sales	30.0%		37.6%	
Export	70.0%		62.4%	
PCI and Anthracite	24,989.9	31.0%	22,411.6	28.2%
Domestic Sales	1.3%		0.8%	
Export	98.7%		99.2%	
Middlings	4,750.5	5.9%	4,990.6	6.3%
Domestic Sales	55.2%		46.9%	
Export	44.8%		53.1%	
Coke	9,428.9	11.7%	8,427.0	10.6%
Domestic Sales	53.9%		62.0%	
Export	46.1%		38.0%	
Chemical products	2,327.4	2.9%	2,421.9	3.0%
Domestic Sales	55.4%		84.5%	
Export	44.6%		15.5%	
Iron ore concentrate	1,844.0	2.3%	4,010.7	5.0%
Domestic Sales	7.6%		52.9%	
Export	92.4%		47.1%	
Other(1)	2,846.0	3.5%	2,264.4	2.9%
Total	80,632.3	100.0%	79,508.6	100.0%
Domestic Sales	25.9%		26.1%	
Export	74.1%		73.9%	

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

Marketing and distribution

In 2015, our Russian domestic sales were conducted directly by our own production facilities and our export sales were conducted by Mechel Carbon, based in Baar, Switzerland, and Mechel Carbon Singapore. We generally do not involve traders in the sales and distribution of our mining products and we have had long-standing relationships with end users of our mining products.

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

Region[(1)]	**2015**	**2014**
Asia	47.5%	49.4%
Russia	25.9%	26.1%
Europe	19.6%	15.1%
CIS	2.7%	5.5%
Middle East[(2)]	3.2%	2.9%
United States	0.3%	0.1%
Other	0.8%	0.9%
Total	100.0%	100.0%

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

(2) Includes Turkey, the United Arab Emirates and Saudi Arabia.

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 30.2% of our total mining segment sales in 2015.

Customer	**% of Total Mining Segment Sales**	**Product**	**% of Total Products Sales**
ArcelorMittal	9.8%	PCI and Anthracite	31.5%
POSCO	6.2%	PCI and Anthracite	7.9%
		Coking coal concentrate	10.4%
		Middlings	3.8%
Baosteel Group Corporation	4.9%	Coking coal concentrate	14.6%
JFE Steel Corporation	4.8%	PCI and Anthracite	4.1%
		Coking coal concentrate	10.6%
MMK	4.5%	Coking coal concentrate	13.4%

Domestic sales

We ship our coking coal concentrate from our coal washing facilities, located near our coal mines, by railway directly to our customers, including steel producers. In 2015, our largest domestic customer for our coking coal concentrate was MMK, accounting for 13.4% of our total coking coal concentrate sales and 4.5% of our total mining segment sales.

We sell coking coal concentrate domestically on the basis of annual framework contracts with monthly or quarterly adjustments to price and quantity.

We ship our steam coal from our warehouses by railway directly to our customers, which are predominantly electric power stations. Our supply contracts for steam coal are generally concluded with customers on a long-term basis with quantities and prices either fixed for the whole term or adjusted monthly. Some of our steam coal is consumed within our group; for example, sales of steam coal and middlings from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were 1,345.7 million rubles in 2015. In total, 585.0 thousand tonnes of steam coal was sold within our group in 2015. SUE HCS Sakha Republic (Yakutia) is our largest domestic customer of steam coal, accounting for 14.6% of our total steam coal sales and 1.3% of our total mining segment sales in 2015.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. In 2015, iron ore concentrate was sold primarily within our group. We set our prices on a monthly basis which is in line with the current practice in the Russian market of iron ore feed.

The majority of coke is sold domestically to our subsidiaries Chelyabinsk Metallurgical Plant and Bratsk Ferroalloy Plant, which accounted for 65.9% of our total coke sales (including intra-group sales) by volume in 2015. Major third party customers include pig iron, steel and ferroalloy producers located in the Central Region and in the Urals of Russia. Sales in Russia are conducted pursuant to framework agreements with monthly adjustments of quantities and prices.

Our subsidiary Mecheltrans is a railway freight forwarding company, which owns its own rail rolling stock, consisting of 1,129 open cars and 57 pellet cars, and leases 3,927 open cars, 101 pellet cars and 144 dumpcars under operating leases and 7,025 open cars under finance leases. In 2015, Mecheltrans transported domestically approximately 28.3 million tonnes of our cargo, approximately 71.7% of which was comprised of coal and iron ore concentrate. Our subsidiary Mecheltrans Auto is a motor freight forwarding company, which owns 45 long-haul trucks. In 2015, Mecheltrans Auto transported domestically approximately 682.1 thousand tonnes of our cargo.

Export sales

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

In 2015, the largest foreign customer of our mining segment was ArcelorMittal, accounting for 9.8% of our total mining segment sales. ArcelorMittal purchases consisted of PCI and anthracite.

We were Russia s second largest exporter of coking coal concentrate in 2015, according to RasMin. Our exports of coking coal concentrate are primarily to China, Japan and South Korea. In 2015, Baosteel Group Corporation, Shunshun Development (Hongkong) Co. Ltd., JFE Steel Corporation, POSCO and CNBM International Corporation were our largest foreign customers of coking coal concentrate, accounting for 53.6% of our total coking coal concentrate sales and 18.1% of our total mining segment sales. Shipments are made by rail to seaports and further by sea, except for shipments to Ukraine, Poland and northeast China that are made only by rail.

Our exports of PCI and anthracite are primarily to Europe, China, South Korea and Japan, which together accounted for 86.9% of our total PCI and anthracite sales and 26.9% of our total mining segment sales in 2015. In 2015, our largest foreign customers of PCI and anthracite were ArcelorMittal, POSCO, JFE Steel Corporation, Tata Steel and Aminco International Limited.

Our exports of steam coal are primarily to China, Turkey and South Korea, which together accounted for 68.5% of our total steam coal sales and 6.1% of our total mining segment sales in 2015. In 2015, our largest foreign customers of steam coal were Batek Resources Limited, Jidong Development Group, LS Networks Co., Ltd., Suifenhe Guolin Wood Industry Park and CFPC (Singapore) Pte. Ltd.

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

In 2015, we used annual contracts for export sales of coal. Coal not shipped under annual contracts was sold on the spot market primarily to Chinese customers.

We sold iron ore concentrate to customers in China during 2015, which accounted for 92.4% of our total iron ore concentrate sales and 2.1% of our total mining segment sales in 2015. We ship iron ore concentrate to China by rail.

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We export coke, including coke breeze, primarily to Europe and Ukraine, which together accounted for 32.7% of our total coke sales and 3.8% of our total mining segment sales in 2015.

From Port Posiet we ship primarily coking coal concentrate and PCI to Japan, South Korea and China. In 2015, our Port Posiet processed 5.1 million tonnes of coal; its warehousing capacity is limited to 200 thousand tonnes per month for one-time storage of no more than four grades of coal. In order to expand the cargo-handling capacity of the port we constructed a modern transshipment complex and put into operation a mechanized coal loosening complex. The first stage of the Port Posiet s modernization enabled us to expand the cargo-handling capacity of the port up to 7.0 million tonnes per annum in 2016. Further modernization envisages the completion of construction of deepwater berth and approach channel. The port s proximity to roads and rail links to key product destinations and transshipment points in China and Russia make it a cost-effective link in the logistical chain for bringing our coal products to the market.

In 2015, Mecheltrans transported for export approximately 14.5 million tonnes of our cargo, approximately 83.8% of which was comprised of coal and iron ore concentrate.

Market share and competition

Coal

According to the Central Dispatching Department, in 2015, the Russian coal mining industry was represented by 192 companies, which operated 71 underground mines and 121 open pit mines. As a result of the privatization of 1990s and subsequent mergers and acquisitions, the Russian coal mining industry has become more concentrated. Based on the Central Dispatching Department s data and our estimates, the ten largest coal mining companies in Russia produced approximately 74% of the overall coal production volume in 2015.

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According to data from the Central Dispatching Department, companies websites and our estimates, in 2015, we were the second largest coking coal producer in Russia, with an approximately 16.7% share of total production by volume, and we had a 6.2% market share with respect to overall Russian coal production by volume. The following table lists the main Russian coking coal producers in 2015, the industrial groups to which they belong, their coking coal production volumes and their share of total Russian production volume.

Group	Company	Coking Coal Production (Thousands of Tonnes)	% of Coking Coal Production by Volume
EVRAZ plc	Raspadskaya OAO	10,352	12.5%
	Yuzhkuzbassugol Coal Company OAO	10,231	12.4%
	EVRAZ Total	20,583	24.9%
Mechel PAO	Yakutugol JSHC	7,770	9.4%
	Southern Kuzbass Coal Company PAO	3,348	4.1%
	Elgaugol OOO	2,619	3.2%
	Mechel Total	13,737	16.7%
Severstal PAO	Vorkutaugol AO	13,160	16.0%
Sibuglemet Holding	Mezhdurechye OAO	4,056	4.9%
	Bolshevik Mine OAO	1,066	1.3%
	Antonovskaya Mine ZAO	750	0.9%
	Sibuglemet Total	5,872	7.1%
UMMC	Kuzbassrazrezugol Coal Company OAO	5,763	7.0%
SUEK AO	SUEK-Kuzbass OAO	5,357	6.5%
	Arctic development OOO	189	0.2%
	SUEK Total	5,546	6.7%
Stroyservis ZAO	Berezovskiy Open-Cut Mine OOO	2,342	2.8%
	Barzasskoye tovarischestvo OOO	862	1.1%
	Shestaki Open-Cut Mine OAO	743	0.9%
	Shahta No. 12 OOO	614	0.7%
	Stroyservis Total	4,561	5.5%
MMK OAO	Belon OAO	3,583	4.3%
Other		9,705	11.8%
Total		82,510	100.0%

Source: Central Dispatching Department, companies websites and our estimates.

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According to data from the Central Dispatching Department, companies websites and our estimates, in 2015, we were the seventh largest steam coal producer in Russia, with a 3.3% share of total production by volume. The following table lists the main Russian steam coal producers in 2015, 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 AO	SUEK-Kuzbass OAO	24,695	8.5%
	Borodinsky Open Pit AO	18,783	6.5%
	Tugnuisky Open Pit OAO	12,250	4.2%
	SUEK-Khakassia OOO	12,006	4.1%
	Berezovsky Open Pit AO	6,263	2.1%
	Urgalugol OAO	5,600	1.9%
	Primorskugol OAO	4,348	1.5%
	Nazarovsky Open Pit AO	3,428	1.2%
	Kharanorsky Open Pit OAO	2,889	1.0%
	Chitaugol OOO	944	0.3%
	Vostochnoe Mine Office ZAO	810	0.3%
	Arctic development OOO	195	0.1%
	SUEK Total	92,211	31.7%
UMMC	Kuzbassrazrezugol Coal Company OAO	38,630	13.3%
	Baikaimskaya Shaft Mine OOO	84	0.0%
	UMMC Total	38,714	13.3%
SDS Holding Company	Chernigovets AO	6,353	2.2%
	Mayskoe Mine Office OOO	5,385	1.8%
	Listvyazhnaya Shaft Mine OOO	4,769	1.6%
	Salek ZAO	4,230	1.4%
	Kiselevsky Open Pit Mine OOO	2,555	0.9%
	Yuzhnaya Shaft Mine OAO	2,283	0.8%
	Sibenergougol OOO	2,016	0.7%
	Prokopyevsky Open Pit Mine ZAO	1,342	0.5%
	SDS Total	28,933	9.9%
En+ Group	Vostsibugol OOO (Irkutsk region)	10,894	3.8%
	Vostsibugol OOO (Irbeysky Open Pit Mine)	1,843	0.6%
	Tuvinskaya Mining Company OOO	683	0.2%
	En+ Total	13,420	4.6%
Russian Coal OAO	Krasnoyarskkraiugol OAO	5,340	1.9%
	Stepnoy Open Pit Mine AO	4,038	1.4%
	Amurugol AO	3,293	1.1%
	Sayano-Partizanskiy Open Pit OOO	604	0.2%
	Russian Coal Total	13,275	4.6%
Kuzbasskaya Toplivnaya Company PAO	Kuzbasskaya Toplivnaya Company	11,002	3.8%

Mechel PAO	Southern Kuzbass Coal Company PAO	6,734	2.3%
	Yakutugol JSHC	1,377	0.5%
	Elgaugol OOO	1,332	0.5%
	Mechel Total	9,443	3.3%
Zarechnaya Coal Company	Zarechnaya Mine OAO	5,043	1.7%
	Alexievskaya Mine OAO	2,501	0.9%
	Karagaylinskoye Mine Office OOO	1,007	0.3%
	Zarechnaya Total	8,551	2.9%
Sibuglemet Holding	Mezhdurechye OAO	2,705	0.9%
	Yuzhnaya Coal Company OAO	2,332	0.8%
	Sibuglemet Total	5,037	1.7%
Other		70,267	24.2%
Total		290,853	100.0%

Source: Central Dispatching Department, companies websites and our estimates.

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

Iron ore

The Russian iron ore market is generally characterized by high demand and limited sources of supply, with product quality as the main factor driving prices. According to Metal Expert, the market is dominated by relatively few producers, with the top three mining groups being Metalloinvest, Severstal and NLMK, representing 70% of total production of iron ore concentrate. We were seventh in production volume in 2015 with 2.7 million tonnes of iron ore concentrate, representing 2.8% of total production of iron ore concentrate in Russia.

Mineral reserves (coal, iron ore and limestone)

Coal and iron ore

Our coal and iron ore reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our coal and iron ore reserves are presented in accordance with the criteria for internationally recognized reserve and resource categories of the Australasian Code for Reporting Mineral Resources and Ore Reserves (as amended) published by the Joint Ore Reserves Committee (**JORC**) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the **JORC Code**), and meet the standards set by the SEC in its Industry Guide 7. Information on our mineral reserves has been prepared by our internal mining engineers as of December 31, 2015. To prepare this information our internal mining engineers used resource and reserve estimates, actual and forecast production, operating costs, capital costs, geological plan maps, geological cross sections, mine advance maps in plan and cross section and price projections.

Our coal and iron ore reserve estimates contained herein inherently include a degree of uncertainty and depend to some extent on geological assumptions and statistical inferences which may ultimately prove to have been unreliable. Consequently, reserve estimates should be regularly revised based on actual production experience or new information and should therefore be expected to change. Notably, should we encounter mineralization or formations different from those predicted by past drilling, sampling and similar examinations, reserve estimates may have to be adjusted and mining plans may have to be altered in a way that might adversely affect our operations. Moreover, if the price of metallurgical coal, steam coal or iron ore declines, or stabilizes at a price lower than recent levels, or if production costs increase or recovery rates decrease, it may become uneconomical to recover reserves containing relatively lower grades of mineralization and consequently our reserves may decrease. Conversely, should the price of metallurgical coal, steam coal or iron ore stabilize at a materially higher price than currently assumed, or if production costs decrease or recovery rates increase, it may become economical to recover material at lower grades than that assumed here and consequently our reserves may increase.

The calculation of our reserves in Russia is based on the expected operational life of each deposit based on life-of-mine plans, which in many cases exceed the relevant license period for the deposit. Russian subsoil licenses are issued for defined boundaries and specific periods, generally about 20 years. Our declared reserves are contained within the current license boundary. Our Russian subsoil licenses expire on dates falling in 2019 through 2037.

However, in many cases, the life of the deposit is well beyond the license term. Based on Russian law and practice, as evidenced by our experience and publicly available information, including a number of court

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cases, it is reasonably likely that an incumbent subsoil user will be granted license extension through the end of the expected operational life of the deposit, provided that the licensee is not in violation of the material terms of the license. The cost for the license extension is not substantial. See Regulatory Matters Subsoil Licensing in Russia Extension of licenses. We have received extension of certain of our subsoil licenses which expired and we intend to extend the licenses for all deposits expected to remain productive subsequent to their license expiry dates. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and permits or fail to comply with the terms of our subsoil licenses and permits, Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Regulatory Matters Subsoil Licensing in Russia.

As of December 31, 2015, we had coal reserves totaling 3,051.4 million tonnes, of which approximately 75% was coking coal. The table below summarizes our coal reserves as of December 31, 2015.

Company	**Proved Reserves(1)**	**Probable Reserves(1)**	**Total**	**% in Open Pit**
		(In thousands of tonnes)		
Yakutugol	205,519	1,298	206,817	95.4%
Elgaugol	1,739,777	503,461	2,243,238	100.0%
Southern Kuzbass Coal Company	575,457	25,849	601,306	74.1%
Total	2,520,753	530,608	3,051,361	94.6%

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

The table below summarizes our reserves by coal type as of December 31, 2015.

Company	**Category**	**Coking Coal**	**Steam Coal**	**Anthracite**	**Lignite**	**Total(1)**
			(In thousands of tonnes)			
	Proved	110,323	11,915	0	83,281	205,519
	Probable	458	840	0	0	1,298
Yakutugol	Total	110,781	12,755	0	83,281	206,817
	Proved	1,478,127	261,650	0	0	1,739,777
	Probable	462,257	41,204	0	0	503,461
Elgaugol	Total	1,940,384	302,854	0	0	2,243,238
	Proved	212,058	246,452	116,947	0	575,457
	Probable	18,529	7,217	103	0	25,849
Southern Kuzbass Coal Company	Total	230,587	253,669	117,050	0	601,306

	Proved	1,800,508	520,017	116,947	83,281	2,520,753
	Probable	481,244	49,261	103	0	530,608
Total		2,281,752	569,278	117,050	83,281	3,051,361

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

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The table below sets forth reserves attributable to our Yakutugol mines as of December 31, 2015.

Mine	Proved Reserves	Probable Reserves	Total[(1)(2)]	Heat Value[(3)] (In kcal/kg)	% Sulfur
	(In thousands of tonnes)				
Neryungrinsky Open Pit[(4)]	112,702	1,298	114,000	8,794	0.11 - 0.30
Kangalassky Open Pit[(5)]	83,281	0	83,281	6,834	0.40
Dzhebariki-Khaya Underground[(5)]	9,536	0	9,536	7,490	0.29
Total	205,519	1,298	206,817		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used the following average prices: $68 per tonne (FCA basis) for coking coal concentrate and $37 per tonne (FCA basis) for raw steam coal.
(3) Heat value is reported on a moisture- and ash-free basis.
(4) Mined coal is processed at the Neryungrinskaya Washing Plant. The average coal recovery factor is estimated to be 63%.
(5) Coal is sold as ROM without processing.

The table below sets forth reserves attributable to our Elgaugol mine as of December 31, 2015.

Mine	Proved Reserves	Probable Reserves	Total[(1)(2)]	Heat Value[(3)]	% Sulfur
	(In thousands of tonnes)			(In kcal/kg)	
Elga Open Pit[(4)]	1,739,777	503,461	2,243,238	7,000-8,600	0.25
Total	1,739,777	503,461	2,243,238		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used the following average prices: $86 per tonne (FCA basis) for coking coal concentrate and $60 per tonne (FCA basis) for raw steam coal.
(3) Heat value is reported on a moisture- and ash-free basis.
(4) Mined coal is processed at the Elginskaya Washing Plant. The average coal recovery factor is estimated to be 40%.

The table below sets forth reserves attributable to our Southern Kuzbass mines as of December 31, 2015.

Mine	Proved Reserves	Probable Reserves	Total[(1)(2)(3)(4)]	Heat Value[(5)]	% Sulfur
	(In thousands of tonnes)			(In kcal/kg)	
Krasnogorsky Open Pit	202,561	194	202,755	8,075	0.37

Olzherassky Open Pit	55,135	5,963	61,098	8,170	0.30
Tomusinsky Open Pit	8,911	4,400	13,311	8,350	0.30
Sibirginsky Open Pit	168,333	45	168,378	8,483	0.33
Sibirginskaya Underground	39,162	4,024	43,186	8,440	0.29
V.I. Lenina Underground	28,840	11,223	40,063	8,431	0.33
Olzherasskaya-Novaya Underground	35,532	0	35,532	7,900	0.30
Yerunakovskaya-1 Underground (project)	36,983	0	36,983	8,150	0.50
Yerunakovskaya-3 Underground (prospect)(6)					
Yerunakovskaya-2 Underground (prospect)(6)					
Olzherasskaya-Glubokaya Underground (prospect)(6)					
Usinskaya Underground (prospect)(6)					
Total	575,457	25,849	601,306		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.

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(2) In estimating the reserves, we used the following average prices (FCA basis): $61 per tonne for coking coal concentrate, $93 per tonne for anthracite, $48 per tonne for PCI and $79 per tonne for sized anthracite.
(3) Reserves are presented on an assumed 100% basis.
(4) Mined coal is processed at Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. The average coal recovery factor is estimated to be 64.6% (within the range of 54-77%).
(5) Heat value is reported on a moisture- and ash-free basis.
(6) Not considered in the review because these prospects presently do not have mine plans.

As of December 31, 2015, we had iron ore reserves (proved and probable) totaling 162.8 million tonnes at an average iron grade of 27.6%. The table below summarizes iron ore reserves by mine as of December 31, 2015.

Mine	Proved Reserves	Probable Reserves	Total[(1)(2)(3)]	Grade (Fe%)[(4)]
	(In thousands of tonnes)			
Korshunovsky Open Pit	55,311	37,622	92,933	24.5
Rudnogorsky Open Pit	41,613	28,233	69,846	31.8
Total	96,924	65,855	162,779	27.6

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used the average price of $44 per tonne (FCA basis) for iron ore concentrate.
(3) Reserves are presented on an assumed 100% basis.
(4) The average iron ore recovery factor is estimated to be within the range of 74-86%.

Limestone

Our limestone mineral reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our limestone mineral reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our reserves, consisting of proven and probable reserves, meet the requirements set by the SEC in its Industry Guide 7. Information on our limestone mineral reserves has been prepared by our internal mining engineers as of December 31, 2015. To prepare this information our internal mining engineers used resource and reserve estimates, actual and forecast production, operating costs, capital costs, geological plan maps, geological cross sections, mine advance maps in plan and cross section and price projections.

Proven reserves presented in accordance with Industry Guide 7 may be combined with probable reserves only if the difference in the degree of assurance between the two classes of reserves cannot be readily defined and a statement is made to that effect. Our limestone proven and probable reserves are presented as combined in this document because, though our deposits have been drilled to a high degree of assurance, due to the methodology used in Russia to estimate reserves the degree of assurance between the two categories cannot be readily defined.

The subsoil license for our limestone mineral reserves is issued for defined boundaries and expires in January 2034. Our declared limestone reserves are contained within the current license boundary.

As of December 31, 2015, we had limestone reserves (proven) totaling 11.4 million tonnes at 55.2% calcium oxide. This estimation is made using the tonnages that are expected to be mined, taking into account losses, an average price of $4.10 per tonne of commodity limestone and currency conversions are carried out at average official exchange rates of the CBR.

Steel Segment

Our steel segment comprises the production and sale of semi-finished steel products, long products of a wide range of steel grades, carbon and stainless flat steel products and high value-added metal products, including wire products, stampings and forgings, structural shapes, beams and rails. Within these product groups, we are further able to tailor various steel grades to meet specific end-user requirements. Our steel segment is supported by our mining segment, which includes coke, iron ore concentrate and limestone.

Our steel segment has production facilities in Russia, Lithuania and Ukraine. Our total steel output was 4.3 million tonnes in 2015 and 4.3 million tonnes in 2014.

In 2014, we transferred our ferrosilicon producing subsidiary Bratsk Ferroalloy Plant to the steel segment. Bratsk Ferroalloy Plant s ferrosilicon production amounted to 92.3 thousand tonnes in 2015 and 90.3 thousand tonnes in 2014.

Description of key products

Pig iron. Pig iron is an iron alloy with usual carbon content of above 2% which is produced from smelting iron ore feed (sinter, pellets and other ore materials) in the blast furnace. Liquid pig iron is used as an intermediate product in the manufacturing of steel. Pig iron in molten state and cold pig iron can be used as charging material for steel manufacturing in basic oxygen furnaces, electric arc furnaces and in the manufacturing of cast iron in cupolas. Cold pig iron is brittle. We sell small volumes of pig iron from our Chelyabinsk Metallurgical Plant to third parties.

Semi-finished products. Semi-finished products typically require further milling before they are useful to end consumers. We offer semi-finished billets, blooms and slabs. Billets and blooms are precursors to long products and have a square cross section. The difference between billets and blooms is that blooms have a larger cross-section which is more than eight inches and is broken down in the mill to produce rails, I-beams, H-beams and sheet piling. Slabs are precursors to flat products and have a rectangular cross section. Such types of products can be produced both by continuous casting of liquid steel and by casting of liquid steel in casting forms with subsequent drafting on blooming mills. We offer our customers billets and blooms produced by Izhstal and Chelyabinsk Metallurgical Plant, as well as slabs produced by Chelyabinsk Metallurgical Plant.

Long steel products. Long steel products are rolled products used in many industrial sectors, particularly in the construction and engineering industries. They include various types of products, for example, rebar, calibrated long steel products and wire rod, which could be supplied both in bars and coils in a wide range of sizes. Our long steel products are manufactured at Chelyabinsk Metallurgical Plant, Izhstal and Beloretsk Metallurgical Plant.

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

Flat steel products. Flat steel products are manufactured by multiple drafting slabs in forming rolls with subsequent coiling or cutting into sheets. Plates are shipped after hot rolling or heat treatment. Coiled stock can be subject to cutting lengthwise into slit coils or crosswise into sheets. Stainless steel is used to manufacture plates and cold-rolled sheets in coils and flat sheets. Hot-rolled plates and carbon and alloyed coiled rolled products are manufactured at Chelyabinsk Metallurgical Plant.

Stampings and forgings. Stampings are special parts stamped from metal billets. Forgings are special products made through the application of localized compressive forces to metal. Forged metal is stronger than cast or machined metal. Our forgings and stampings are offered on a made-to-order basis according to minimum

batches depending on the products sizes. Our product offerings include rollers and axles used in vehicle manufacturing; gears and wheels; bars; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its branch in Chelyabinsk.

Wire products. Wire products are the result of processing of wire rod which are ready for use in manufacturing and consumer applications. Our wire products are manufactured at Beloretsk Metallurgical Plant, Vyartsilya Metal Products Plant and Izhstal in Russia and Mechel Nemunas in Lithuania. Our wide-ranging wire products line includes spring wire; rope wire; bearing wire; microwire; precision alloy wire; high and low carbon concrete reinforcing wire; galvanized wire; copper-coated and bright welding wire; strand of various application; various types of nails; steel wire ropes specially engineered for the shipping, aerospace, oil and gas and construction industries; steel wire ropes for passenger and freight elevators; general-purpose wire; steel straps and clips; chain link fences; welded (reinforcing) meshes; and others.

Ferrosilicon. Ferrosilicon is used in ferrous metallurgy as a deoxidizer or as an alloying element for production of electrotechnical, spring wire, corrosion-resistant and heat resistant steel grades, or as a pig iron modifier. In nonferrous metallurgy, ferrosilicon is used as a reducing agent for production of nonferrous metals and alloys. We produce two types of ferrosilicon: with 65% and 75% silicon content in the alloy. We offer our customers ferrosilicon produced by Bratsk Ferroalloy Plant.

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

	2015	**2014**
	(In thousands of tonnes)	
Pig Iron	4,065	3,946
Semi-Finished Steel Products, including:	1,098	970
Carbon and Low-Alloyed Semi-Finished Products	1,081	966
Long Steel Products, including:	2,463	2,721
Stainless Long Products	12	14
Alloyed Long Products	121	278
Rebar	1,543	1,575
Wire Rod	230	402
Low-Alloyed Engineering Steel	557	452
Flat Steel Products, including:	481	435
Stainless Flat Products	10	18
Carbon and Low-Alloyed Flat Products	471	417
Forgings, including:	49	61
Stainless Forgings	3	5
Alloyed Forgings	34	39
Carbon and Low-Alloyed Forgings	11	17
Stampings	69	84
Wire Products, including:	628	695
Wire	580	603
Ropes	37	45

Steel manufacturing process and types of steel

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

In BOF steel manufacturing, steel is produced with less than 2% carbon content. The principal raw materials used to produce steel are liquid pig iron and scrap metal. The molten steel, depending on the products in which it will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, titanium and other components to give it special properties. Approximately 72% of the world s steel output is made in BOFs, according to CRU.

In EAF steel manufacturing, steel is generally produced from remelted scrap metal. Heat to melt the scrap metal is supplied from high-voltage electricity that arcs within the furnace between graphite electrodes and the scrap metal. This process is suitable for producing almost all steel grades, including stainless steel; however, it is limited in its use for production of high-purity carbon steel. Approximately 28% of the world s steel output is made in EAFs, according to CRU.

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

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

Ferrosilicon manufacturing process

Ferrosilicon is produced in EAFs in a continuous ore smelting process. Silicon is reduced from quartzite with coke and coal carbon and alloyed with steel cutting iron. Ferrosilicon is discharged from the furnace periodically. After cooling, metal ingots are split and sorted into various commercial fractions.

Steel segment production facilities

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

Chelyabinsk Metallurgical Plant

Chelyabinsk Metallurgical Plant is an integrated steel mill which produces flat and long carbon and stainless steel products, rail and beam sections and semi-finished products. Semi-finished products are used for further processing in Russia or our internal needs. Chelyabinsk Metallurgical Plant also produces pig iron which is used in the manufacturing of steel. The plant sources all of its metallurgical coke needs from Mechel Coke and most of its iron ore concentrate needs from Korshunov Mining Plant. Its customer base is largely comprised of companies from the construction and engineering industries, as well as ferrous metallurgy. We acquired Chelyabinsk Metallurgical Plant in 2001.

Chelyabinsk Metallurgical Plant s principal production lines include a BOF workshop equipped with three converters; two EAF workshops equipped with EAFs of 100 and 125 tonnes, respectively; five concasting machines; a blooming mill for 200-320 millimeter billets; five long products rolling mills for 6.5-190 millimeter round bars and 75-156 millimeter square bars, wire rod, rebar steel, bands and long products; a universal rail and structural rolling mill for structural shapes of different types and sizes and rail products; a hot-rolled flat products workshop with a thick sheet continuous rolling mill for hot-rolled sheets of up to 1,800 millimeters wide and up to 20 millimeters thick; a semi-continuous rolling mill for up to 1,500 millimeters wide and up to 6 millimeters thick hot-rolled coils; a cold-rolled product workshop for 0.3-4 millimeter cold-rolled stainless sheet. In addition, we have at our Chelyabinsk Metallurgical Plant four sintering machines and three blast furnaces. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Chelyabinsk Metallurgical Plant s principal production areas.

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
	(In thousands of tonnes, except for percentages)		
Sintering	5,252	96.1%	
Pig iron	4,300	94.5%	
Steel-making	5,177	79.1%	
Rolling	4,750	79.7%	

Chelyabinsk Metallurgical Plant produced approximately 4.1 million tonnes of raw steel and 3.8 million tonnes of rolled products in 2015.

In 2008, we initiated construction of a universal rail and structural rolling mill at the Chelyabinsk Metallurgical Plant. The project is aimed at producing new types of large section structural shapes (including beams, angles, rails, channels and special sections) with total output 1.1 million tonnes per annum. Italian Danieli & C. Officine Meccaniche S.p.A. (**Danieli**) is the equipment supplier and Chinese Minmetals Engineering Co. Ltd. (**Minmetals**) is the general contractor. Investments will amount to 23.1 billion rubles. In July 2013, the universal rail and structural rolling mill was launched. At present, phased guarantee tests of the equipment with the development of production and certification of rails are being carried out. Three certificates of conformity of the Customs Union were obtained on certain types of rails.

The main target customers for the universal rolling mill products are Russian Railways, construction industry and different manufacturing companies. On November 13, 2008, Chelyabinsk Metallurgical Plant and Russian Railways signed an agreement for the supply of rails for the period until 2030. The annual supply volume is fixed at up to 400 thousand tonnes of rails. The increase in sales volume of the universal rolling mill products will occur along with the development and certification of new types of products.

In December 2010, Mechel Materials started assembling the main manufacturing equipment of the grinding-mixing complex for Portland blast-furnace slag cement production with 1.6 million tonnes capacity per annum in the territory of Chelyabinsk Metallurgical Plant. The main raw material is blast furnace slag produced by Chelyabinsk Metallurgical Plant. This complex is the first Russian facility to produce high-quality Portland blast-furnace slag cement of certain grades (CEMIII/A, CEMIII/B, CEMIII/C). Portland blast-furnace slag cement is widely used in the construction industry for the production of reinforced concrete structures. The general contractor is Austrian FMW GmbH. The amount to be invested is 5,092 million rubles. In 2013, construction and assembly and commissioning works on the basic process equipment were completed and production in the mode of experimental-industrial testing commenced. In 2014-2015, we mastered production of three grades of cement (CEMIII/A-32,5N, CEMIII/A-42,5N, CEMII/A-42,5N) and ground granulated blast-furnace slag which is a new material for concrete and cement production. In 2015, most of the main technological equipment was commissioned. Production of experimental products in the mode of experimental-industrial testing amounted to 105.9 thousand tonnes in 2015.

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Izhstal

Izhstal is a special steel producer located in the western Urals city of Izhevsk, in the Republic of Udmurtia, a Russian administrative region also known as Udmurtia. Its customer base is largely comprised of companies from the aircraft, defense, engineering, metal-processing and automotive industries. We acquired Izhstal in 2004.

Izhstal s principal production facilities include two EAFs of 25 and 40 tonnes; two ladle furnaces and a ladle vacuum oxygen decarburizer; a concasting machine; a blooming mill for 100-220 millimeter billets; two medium-sized long products rolling mills for 30-120 millimeter round bars, 30-90 millimeter square bars, bands and hexagonal bars; and one continuous small sort wire mill for 5.5-29 millimeter round, 12-28 millimeter square and 12-27 millimeter hexagonal light sections, reinforced steel and bands. In June 2011, wire products production, which includes various drawing machines, a pickling line, bell furnaces and patenting lines, was spun-off into a branch of Beloretsk Metallurgical Plant. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Izhstal s principal production areas.

Production Area	**Capacity in 2015**	**Capacity Utilization Rate in 2015**	**Planned Increase (2016-2018)**
	(In thousands of tonnes, except for percentages)		
Steel-making	351	55.3%	
Rolling	420	59.8%	
Wire products	6	7.6%	

Izhstal produced approximately 194.0 thousand tonnes of raw steel, 251.0 thousand tonnes of rolled products and approximately 0.5 thousand tonnes of wire products in 2015.

Beloretsk Metallurgical Plant

Beloretsk Metallurgical Plant is a wire products plant in Beloretsk, in the southern part of Ural Mountains, which produces wire rod and a broad range of wire products from semi-finished products supplied by Chelyabinsk Metallurgical Plant and third party suppliers. Its customers are largely from the construction and related industries. We acquired Beloretsk Metallurgical Plant in 2002.

Beloretsk Metallurgical Plant s principal production lines include a rolling workshop equipped with a wire mill for production of 5.5-13.5 millimeter wire rod; a number of wire products workshops equipped with drawing, rewinding, wire stranding, cabling and closing machines and heat treatment furnaces, wire annealing and galvanizing, patenting and galvanizing lines; low relaxation prestressed concrete wire and strand lines and a cold rolling line. In June 2011, wire products production facilities were transferred to Beloretsk Metallurgical Plant from Izhstal. In September 2014, in order to optimize costs these production facilities were moved to Beloretsk Metallurgical Plant. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Beloretsk Metallurgical Plant s principal production areas.

Production Area	**Capacity in 2015**	**Capacity Utilization Rate in 2015**	**Planned Increase (2016-2018)**

	(In thousands of tonnes, except for percentages)	
Rolling	630	93.6%
Wire products	599	80.4%

Beloretsk Metallurgical Plant produced a total of 481.7 thousand tonnes of wire products in 2015. Rolled products production in 2015 amounted to a total of 589.3 thousand tonnes, of which 473.6 thousand tonnes were further processed into wire products and 115.7 thousand tonnes constituted the output volume of wire rod for third party customers.

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Vyartsilya Metal Products Plant

Vyartsilya Metal Products Plant is a wire products plant in the Republic of Karelia, an administrative region in the northwest of Russia near the Finnish border that produces low carbon welding, general-purpose and structural wire, nails and steel bright and polymeric-coated chain link fences. The plant uses wire rod supplied by Chelyabinsk Metallurgical Plant and Beloretsk Metallurgical Plant. The plant s customers are largely from the construction industry and ferrous metallurgy. We acquired Vyartsilya Metal Products Plant in 2002.

Vyartsilya Metal Products Plant s principal production facilities include drawing machines, annealing furnaces, chain linking machines, nail-making presses and cutting machines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Vyartsilya Metal Products Plant s principal production area.

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
	(In thousands of tonnes, except for percentages)		
Wire products	123	60.6%	

Vyartsilya Metal Products Plant produced 74.6 thousand tonnes of wire products in 2015.

Urals Stampings Plant

Urals Stampings Plant produces stampings and forgings from special steels and heat-resistant and titanium alloys for the aerospace, oil and gas, heavy engineering, power and other industries. Urals Stampings Plant sources its special steel needs from Chelyabinsk Metallurgical Plant. We acquired Urals Stampings Plant in 2003.

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

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
	(In thousands of tonnes, except for percentages)		
Stampings and forgings	100	69.2%	

Urals Stampings Plant produced 69.2 thousand tonnes of special steel stampings and forgings in 2015.

Mechel Nemunas

Mechel Nemunas is a Lithuanian wire products plant located in Kaunas that produces hard-drawn, annealed, electrode and concrete reinforcement wire, nails, steel wire fiber and chain link fences. Its customers are primarily from the construction industry of Europe and Baltic countries. We acquired Mechel Nemunas in 2003.

Mechel Nemunas s principal production facilities include drawing machines, nail-making presses, equipment for fiber production, chain linking machines and bell furnaces. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Mechel Nemunas s principal production area.

Production Area	Capacity in 2015	Capacity Utilization Rate in 2015	Planned Increase (2016-2018)
	(In thousands of tonnes, except for percentages)		
Wire products	90	79.8%	

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Mechel Nemunas produced 71.7 thousand tonnes of wire products in 2015.

Bratsk Ferroalloy Plant

Bratsk Ferroalloy Plant is the largest enterprise in Eastern Siberia producing high-grade ferrosilicon. Ferrosilicon is used in the steel-making industry as a deoxidizer for manufacturing of most steel grades, including carbon and stainless steel grades; or as an alloying element for the production of insulating, acid-proof and heatproof steel grades; or as a pig iron modifier; and as a reducing agent for the production of nonferrous metals and alloys. Approximately 5-6 kg of ferrosilicon is used in every tonne of steel produced. We acquired Bratsk Ferroalloy Plant in 2007.

The main production facilities of the plant include three ore-thermal furnaces with a capacity of 25 megavolt-amperes (**MVA**) and one ore-thermal furnace with a capacity of 33 MVA. In October 2010, we signed contracts with Siberian Plant of Electrothermal Equipment (Sibelectrotherm JSC, Novosibirsk) for the supply of four ore-thermal furnaces with a capacity of 33 MVA each to replace the existing furnaces. We commenced commercial operations of the first new furnace in the second quarter of 2013. Currently, the second furnace assemblage is suspended. The launch of this furnace is expected in 2017. Following the commissioning of the second new furnace, Bratsk Ferroalloy Plant s production capacity is expected to increase by 15%.

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

Production Area	**Capacity in 2015**	**Capacity Utilization Rate in 2015**	**Planned Increase (2016-2018)**
	(In thousands of tonnes, except for percentages)		
Ferrosilicon	92.9	99.3%	

Bratsk Ferroalloy Plant produced 92.3 thousand tonnes of ferrosilicon in 2015.

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Sales of steel segment products

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

Product	2015 Amount	2015 % of Revenues	2014 Amount	2014 % of Revenues
	(In millions of Russian rubles, except for percentages)			
Pig Iron	1,287.4	0.9%	3,251.5	2.3%
Semi-Finished Steel Products, including:	5,027.2	3.4%	2,834.5	2.0%
Carbon and Low-Alloyed Semi-Finished Products	4,139.8	2.8%	2,281.7	1.6%
Long Steel Products, including:	73,853.0	50.6%	71,063.7	51.3%
Stainless Long Products	1,711.9	1.2%	1,053.0	0.8%
Other Long Products	28,151.8	19.3%	26,316.3	19.0%
Rebar	39,980.2	27.4%	39,537.9	28.5%
Wire Rod	4,009.1	2.7%	4,156.5	3.0%
Flat Steel Products, including:	17,490.1	12.0%	14,646.0	10.6%
Stainless Flat Products	2,564.6	1.8%	3,502.0	2.6%
Carbon and Low-Alloyed Flat Products	14,925.5	10.2%	11,144.0	8.0%
Forgings, including:	5,248.6	3.6%	4,421.8	3.2%
Stainless Forgings	1,368.4	0.9%	1,145.2	0.8%
Other Forgings	3,880.2	2.7%	3,276.6	2.4%
Stampings	6,917.6	4.7%	7,421.2	5.3%
Wire Products, including:	23,442.6	16.0%	22,396.5	16.2%
Wire	15,560.9	10.7%	14,968.3	10.8%
Ropes	2,254.9	1.5%	2,069.0	1.5%
Other Wire Products	5,626.8	3.8%	5,359.2	3.9%
Steel Pipes	3,308.3	2.3%	3,390.7	2.4%
Ferrosilicon	3,527.7	2.4%	2,712.6	2.0%
Other	5,929.4	4.1%	6,521.3	4.7%
Total	146,031.9	100.0%	138,659.8	100.0%

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

Region(1)	2015	2014(2)
Russia	68.1%	68.2%
Europe	15.9%	16.0%
CIS	12.4%	12.6%
Asia	1.3%	1.4%
Middle East(3)	1.1%	0.9%

Other	1.0%	0.5%
United States	0.2%	0.4%
Total	100.0%	100.0%

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

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(3) Our steel segment sales to Middle East primarily go to Turkey, which accounted for 83.3% of the total steel segment sales to Middle East in 2015. We did not have any direct sales to Iran, Syria and Sudan in 2015, and we have no plans to make such direct sales in the future.

In 2015, the five largest customers of our steel products were EVRAZ (flat steel products, long steel products, ropes), Pervouralsk New Pipe Plant (long steel products, cold pig iron, semi-finished products, flat steel products, forgings), Dream Holding International LTD (long steel products), Metallservice OAO (long steel products, flat steel products, wire products, pipes) and Steel Industrial Company AO (long steel products, wire products, flat steel products, pipes), which together accounted for 6.2% of our total steel segment sales.

In 2015, the five largest customers of ferrosilicon were MMK, Mitsui & Co., Severstal, Globalalloy Technologies Co., Ltd and Scanalloys Limited, which together accounted for 1.7% of our total steel segment sales.

The majority of our steel segment export sales are made to end users in non-sanctioned countries on a CFR and CPT basis. The remainder of our steel products is exported to independent distributors and traders on an FOB basis. We refer to such sales as indirect sales. Contracts with distributors and traders generally specify certain ports to which we must deliver our products. The distributors and traders take delivery of our products at these locations, and further on-sell the products to other distributors or end users. When these distributors take delivery of our products, we are provided in certain instances with documentation showing the further destination of our products. In case of indirect sales, we do not have control over the final destination of our products, contractually or otherwise.

Based on such documentation, we are aware that certain of our products are sold into and can be re-sold to countries that are subject to international trade restrictions or economic embargoes that prohibit and/or materially restrict certain persons (for instance, U.S. incorporated entities and U.S. citizens or residents) from engaging in commercial, financial or trade transactions with such countries, including Iran, Syria, Sudan and Belarus (the **Sanctioned Countries**). We estimate that approximately 0.5% of our total sales in 2015 were sold in Belarus, of which 0.2% were indirect sales by independent distributors and traders to other distributors or end users and 0.3% were direct sales to end users.

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

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The following table sets forth information on our domestic and export sales of our primary steel segment product categories for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 28 to the consolidated financial statements.

Product	**2015**	**2014**
	(In millions of Russian rubles, except for percentages)	
Pig Iron	1,287.4	3,251.5
Domestic Sales	35.6%	51.2%
Export	64.4%	48.8%
Semi-Finished Steel Products	5,027.2	2,834.5
Domestic Sales	63.0%	53.4%
Export	37.0%	46.6%
Long Steel Products	73,853.0	71,063.7
Domestic Sales	83.1%	82.4%
Export	16.9%	17.6%
Flat Steel Products	17,490.1	14,646.0
Domestic Sales	88.9%	86.8%
Export	11.1%	13.2%
Forgings	5,248.6	4,421.8
Domestic Sales	63.3%	75.1%
Export	36.7%	24.9%
Stampings	6,917.6	7,421.2
Domestic Sales	92.2%	93.5%
Export	7.8%	6.5%
Wire Products	23,442.6	22,396.5
Domestic Sales	84.4%	84.8%
Export	15.6%	15.2%
Steel Pipes	3,308.3	3,390.7
Domestic Sales	90.5%	91.5%
Export	9.5%	8.5%
Ferrosilicon	3,527.7	2,712.6
Domestic Sales	57.1%	56.3%
Export	42.9%	43.7%
Other	5,929.4	6,521.3
Domestic Sales	86.4%	87.0%
Export	13.6%	13.0%
Total	146,031.9	138,659.8
Domestic Sales	82.3%	82.2%
Export	17.7%	17.8%

The end users of our steel products vary. Our rebar is principally used in the construction industry. The main end users of our wire rod are construction companies and hardware production works. Our other long steel products are used in various moving parts manufactured by the automotive industry, as well as the engineering, pipe and construction industries. Our flat steel products are used in the construction (covers, floor plates) and pipe industries. Our forgings and stampings are primarily used in the engineering and pipe industries. The main end users of our wire products are the construction, mining, engineering and other industries.

The following table sets forth by percentage a breakdown of our shipment volumes of all steel products produced in Russia by industry sector within the Russian market in 2015.

Use by Industry	Construction	Metals Trading	Ferrous Metallurgy	Engineering and Metalworking	Vehicles Manufacturing	Railways Construction and Repair	Other Industries(1)
Semi-Finished Steel Products	0.0%	0.6%	99.1%	0.3%	0.0%	0.0%	0.0%
Forgings	0.0%	58.3%	26.5%	13.9%	1.3%	0.0%	0.0%
Wire Products	24.5%	40.6%	9.1%	5.9%	2.2%	2.3%	15.4%
Flat Steel Products	14.0%	37.7%	17.0%	5.6%	3.0%	0.0%	22.7%
Long Steel Products	35.7%	29.1%	10.2%	7.5%	2.7%	0.0%	14.8%
Steel Pipes	70.0%	17.5%	3.2%	0.8%	0.1%	0.0%	8.4%
Stampings	0.0%	5.6%	0.1%	16.0%	78.1%	0.0%	0.2%

(1) Including mining and power industries and consumer goods sector.

Marketing and distribution

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

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

In 2015, most of our production facilities handled their domestic sales independently, and our export sales were marketed through Mechel Trading and Mechel Service Global, as well as conducted directly by our production facilities.

Domestic sales

Our Russian steel production facilities Chelyabinsk Metallurgical Plant, Izhstal and Urals Stampings Plant are located in large industrial areas and have long-standing relationships with local wholesale customers. Mechel Service, a Russian subsidiary of Mechel Service Global, has 54 storage sites in 38 cities throughout Russia to serve our end users, which helps us to establish long-standing customer relationships by virtue of proximity to both production and customers. Mechel Service had 1,370 employees as of December 31, 2015.

Ferrosilicon sales are conducted directly by our Bratsk Ferroalloy Plant. We supply ferrosilicon on the Russian market under annual contracts with monthly adjustment of prices and volumes, as well as on the spot market (under monthly tenders).

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Export sales

Most of the exports in our steel segment are made to end users in non-sanctioned countries, with the rest sold to independent distributors and traders, which then resell our products to end users. Our export sales are carried out by Mechel Trading, directly by our own production facilities and through Mechel Service Global s distribution network.

Our production facilities supply high-quality rolled steel products to the subsidiaries of Mechel Service Global in Western Europe either directly, or through the logistics center in the Port of Antwerp. Our logistics center in the Port of Antwerp also allows us to sell high-quality rolled steel products to manufacturing and service companies on a walk-in basis.

In 2015, ferrosilicon sales outside of Russia were principally to Japan. Deliveries to Japanese customers were carried out on CIF delivery terms (including transportation by railway, handling in ports of Nakhodka, Vladivostok and Vostochny and use major container lines to major Japanese ports and insurance). We sell ferrosilicon based both on long-term contracts and on a spot basis.

Distribution

Rail transportation is used for most shipments from our production facilities and warehouses to our end customers, wholesale warehouses or seaports.

Market share and competition

In our core export markets, we primarily compete with other Russian producers, as well as producers from China, Ukraine, Belarus, Turkey and Kazakhstan. The leading global steel manufacturers have been increasingly focused on value-added and higher-priced products. The principal competitive factors include price, distribution, product quality, product range and customer service.

In the Russian market, we compete on the basis of price and quality of steel products, their added value, product range and service, technological innovation and proximity to customers. The Russian steel industry is characterized by a relatively high concentration of production, with the six largest integrated steel producers, including ourselves, accounting for 83.7% of overall domestic crude steel output in 2015, according to Metal Expert.

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

Novolipetsk Steel PAO (**NLMK**) is Russia s largest steel manufacturer by volume, accounting for 21.0% of the volume of Russian commodity steel production in 2015. NLMK produces flat products (hot-rolled and cold-rolled), galvanized products and slabs, as well as long products. The company s production facilities are located in Lipetsk (NLMK), in the Sverdlovsk region (long products producer NSMMZ and wire products producer NLMK-Metalware) and in the Kaluga region (long products producer NLMK-Kaluga). NLMK exported 60.3% of its steel products in 2015. Domestically, NLMK s largest customers are in the construction and oil and gas industries, followed by companies in the automotive sector. NLMK also controls iron ore producer Stoilensky GOK and coke producer Altai-Koks.

Magnitogorsk Iron & Steel Works OAO (**MMK**) is Russia s second largest steel manufacturer by volume, accounting for 17.1% of the volume of Russian commodity steel products output (including long products, flat products and semi-finished products) in 2015. MMK s product mix is comprised mostly of flat products, which accounted for 84.6% of its commercial steel products output (including semis) in 2015. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 33.2% of its output in 2015. Its production facilities are located in Magnitogorsk in the southern Urals. MMK also controls coking coal producer Belon OAO.

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Severstal PAO (**Severstal**) is Russia s third largest steel manufacturer by volume on a consolidated basis, accounting for 16.0% of the volume of Russian commodity steel products output in 2015. The company specializes in flat products which constitute a significant part of its production. Severstal is the second-leading producer of flat products, accounting for 28.9% of Russia s total flat products output in 2015. Domestic sales of flat products accounted for 62.3% of Severstal s output in 2015, with the oil and gas industry and automotive sector as its leading customers. Severstal controls coal producer Vorkutaugol and iron ore producers Karelsky Okatysh and Olenegorsky GOK, which satisfy a portion of Severstal s coking coal and iron ore requirements. Severstal also controls Long Product Mill Balakovo.

EVRAZ plc (**EVRAZ**), which includes Russian steel producers EVRAZ NTMK and EVRAZ ZSMK, had a 15.6% share by volume of Russian commodity steel products output in 2015. EVRAZ focuses on the production of long products, including rebar, wire rod and profiled rolled products (such as rails, beams, channels and angles). EVRAZ exported 57.2% of its output in 2015. EVRAZ also controls iron ore producers EVRAZ KGOK, Evrazruda and EVRAZ Sukha Balka, as well as coking coal producers Yuzhkuzbassugol Coal Company, Raspadskaya OAO and Mezhegeyugol.

Metalloinvest Holding Company AO (**Metalloinvest**), whose Russian assets consist of Oskolsky Electric Metallurgical Works AO (**OEMK**) and Ural Steel OAO, had a 5.7% share by volume of Russian commodity steel products output in 2015. OEMK produces long products only, and Ural Steel produces both long and flat products. Metalloinvest exported 66.4% of its commodity steel production in 2015. The company s production facilities are located in the Central and Urals federal districts of Russia. Metalloinvest also controls Russia s largest iron ore and pellets production facilities Lebedinsky GOK AO and Mikhailovsky GOK OAO.

Source: Company websites; Metal Expert.

These six companies, including ourselves, can be divided into two groups by product type. MMK, Severstal and NLMK focus mainly on flat products, while we, EVRAZ and Metalloinvest produce primarily long products. Mechel is the fourth largest and most comprehensive producer of special steel and alloys in Russia, accounting for 13.0% of total Russian special steel output by volume in 2015, according to Chermet and Metal Expert. We are also the second largest producer of long steel products (excluding square billets) in Russia by volume, with significant market shares in both regular long steel products and special steel long products, according to Metal Expert.

In the Russian non-special steel long products category, our primary products and our market position by production volume in 2015 were as follows, according to Metal Expert:

Reinforcement bars (rebar) In rebar, we compete in the 6-40 millimeters range. In 2015, the largest domestic rebar producers were NLMK (20.6%), EVRAZ (19.5%), Mechel (18.6%), Severstal (13.0%) and MMK (5.6%).

Wire rod There were five major producers of wire rod in Russia in 2015: Mechel (31.4%), MMK (18.5%), EVRAZ (15.6%), NLMK (15.2%) and Severstal (14.5%).

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

According to Metal Expert and Chermet, we were one of the leading producers in Russia of special steel long products (bearing, tool, high-speed and stainless long steel) in 2015, producing 9.1% of the total Russian output by volume, and we held significant shares of Russian production volumes in 2015 of stainless long products (17.3%), tool steel (29.0%) and high-speed steel (58.0%).

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The following tables set forth additional information regarding our 2015 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	5,088	29.0%
Mechel	2,960	16.9%
NLMK	2,147	12.2%
Severstal	1,717	9.8%
MMK	1,686	9.6%
Metalloinvest	609	3.5%
Other	3,328	19.0%
Total	17,535	100.0%

Source: Metal Expert.

Long products Wire rod[(1)]

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel	816	31.4%
MMK	480	18.5%
EVRAZ	404	15.6%
NLMK	396	15.2%
Severstal	377	14.5%
Other	125	4.8%
Total	2,598	100.0%

Source: Metal Expert.

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

Long products — Rebar

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
NLMK	1,730	20.6%
EVRAZ	1,637	19.5%
Mechel	1,560	18.6%
Severstal	1,091	13.0%
MMK	471	5.6%
Other	1,912	22.7%
Total	8,401	100.0%

Source: Metal Expert.

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Flat stainless steel

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
VMZ Red October	15.7	55.8%
Mechel	9.8	34.8%
Other	2.7	9.4%
Total	28.2	100.0%

Source: Metal Expert.

Wire products

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel	441.7	25.5%
MMK-Metiz	414.0	23.9%
Severstal-Metiz	397.1	22.9%
NLMK-Metalware	271.8	15.7%
EVRAZ	206.9	12.0%
Total	1,731.5	100.0%

Source: Metal Expert.

Wire products   Spring wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel	32.1	58.5%
Severstal-Metiz	19.4	35.3%
MMK-Metiz	3.4	6.2%

Total	54.9	100.0%

Source: Metal Expert.

Wire products High-tensile wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Severstal-Metiz	39.3	55.7%
Mechel	27.9	39.6%
MMK-Metiz	3.3	4.7%
Total	70.5	100.0%

Source: Metal Expert.

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According to Metal Expert, Mechel is the fourth largest Russian producer of ferrosilicon by volume. In 2015, we had a 13.6% market share by volume of Russian ferrosilicon production.

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

Kuznetsk Ferroalloys OAO (**Kuznetsk Ferroalloys**) is the largest Russian ferrosilicon producer, with a 40.4% market share by production volume in 2015. It also controls Yurginsk Ferroalloys Plant, which is the third largest Russian ferrosilicon producer, with a 14.9% market share by production volume in 2015. Kuznetsk Ferroalloys produces microsilica and quartzite. It is primarily export-oriented, having exported 96.7% of its ferrosilicon production volume in 2015.

Chelyabinsk Electro-Metallurgical Plant OAO (**ChEMK**) is the second largest Russian ferrosilicon producer, with a 24.6% market share by production volume in 2015. In addition it produces ferrochrome, silicomanganese and silicocalcium. ChEMK exports most of its production. In 2015, it exported 76.2% by volume of its ferrosilicon production.

The following table sets forth additional information regarding our 2015 ferrosilicon market share in Russia.

Manufacturer	**Region**	**Production**	**Market Share by Production Volume**
	(In thousands of tonnes, except for percentages)		
Kuznetsk Ferroalloys	Kemerovo	257.0	40.4%
ChEMK	Chelyabinsk	156.4	24.6%
Yurginsk Ferroalloys Plant	Kemerovo	95.0	14.9%
Bratsk Ferroalloy Plant	Irkutsk	86.1	13.6%
NLMK	Lipetsk	23.5	3.7%
Serov Ferroalloys Plant	Sverdlovsk	17.7	2.8%
Total		635.7	100.0%

Source: Metal Expert.

Raw materials

The principal raw materials we use in pig iron production are iron ore products (sinter of our own production and purchased oxidized pellets), coke and limestone. Pig iron is made in blast furnaces. For sinter production we use iron ore concentrate. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. In 2015, our steel-making operations used 6.4 million tonnes of iron ore feed, approximately 16% in the form of pellets and 84% in the form of sinter, and we internally sourced approximately 36% of our total iron ore concentrate requirements during this period. Korshunov Mining Plant supplied our steel segment with 2.3 million tonnes of iron ore concentrate in

2015. In 2015, we purchased most of the remaining part of our iron ore feed from Russian suppliers such as Kachkanarsky GOK, Kovdorsky GOK, Vysokogorsky GOK, Mikhailovsky GOK and Bakalskoye Rudoupravlenie under monthly, quarterly and annual contracts on market terms.

We process coking coal concentrate into coke at Mechel Coke and Moscow Coke and Gas Plant. In 2015, our production facilities used 3.8 million tonnes of coking coal concentrate (including 2.9 million tonnes used by Mechel Coke and 0.9 million tonnes used by Moscow Coke and Gas Plant), and 75% of total usage was sourced internally. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in ferrosilicon production at Bratsk Ferroalloy Plant. In 2015, we produced and internally used approximately 2.1 million tonnes of coke as well as produced for sale to third parties another approximately 1.0 million tonnes of coke.

We are capable of internally sourcing all of the limestone requirements from our Pugachevsky Open Pit. In 2015, we supplied approximately 769.1 thousand tonnes of limestone to our steel production facilities.

We produce 89.3% of steel in basic oxygen furnaces. In steel-making, scrap is used in the composition of feedstock, and we are approximately 54.3% self-sufficient in this raw material, which amounts to 410.7 thousand tonnes of scrap, sourcing the balance from various scrap traders. We generate our scrap supply through, among others, Mechel Vtormet, our scrap metal processing company.

In 2015, we used nickel sourced from Ufaleynickel and Normetimpex JSC in the production of stainless and other special steels. In 2015, our production facilities used 1.9 thousand tonnes of nickel.

In 2015, our production facilities used 28.9 thousand tonnes of ferrosilicon (including 27.0 thousand tonnes at Chelyabinsk Metallurgical Plant, 0.2 thousand tonnes at the Chelyabinsk branch of Urals Stampings Plant and 1.7 thousand tonnes at Izhstal), almost all of which was supplied by Bratsk Ferroalloy Plant.

Steel-making requires significant amounts of electricity to power EAFs, ladle furnaces and rolling mills and to produce sinter. In 2015, our steel segment operations consumed approximately 3.2 billion kWh of electricity, of which approximately 1.9 billion kWh was used at Chelyabinsk Metallurgical Plant. Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Urals Stampings Plant have power co-generation facilities, which are operated by Mechel Energo. In 2015, these facilities produced 1.3 billion kWh of electricity, yielding approximately 29% self-sufficiency overall for our group, which consumed 4.7 billion kWh of electricity in 2015. The balance was purchased in the wholesale and retail electricity markets. Aside from Southern Kuzbass Power Plant, which ran on steam coal in 2015, our power-generating facilities work on blast furnace and coke gas, which are by-products of our steel-making operations, and natural gas, which we purchase from Novatek and Gazprom. In 2015, we consumed 1.7 billion cubic meters of blast furnace gas, 565.5 million cubic meters of coke gas and 992.5 million cubic meters of natural gas. In 2015, Southern Kuzbass Power Plant consumed 1.8 million tonnes of steam coal sourced mostly from our own coal mining assets.

Large amounts of water are also required in the production of steel. Water serves as a re-solvent, accelerator and washing agent. Water is used to cool equipment components, to carry away waste, to help produce and distribute heat and power and to dilute liquids. One of the principal sources of water is rivers, and many of our production facilities recirculate a portion of water used for their production needs. For example, Chelyabinsk Metallurgical Plant sources 88.6% of its water needs from recirculated water and the rest from a local river. Izhstal sources 85.0% of its water needs from recirculated water, 7.2% from recycled water and the rest from a storage reservoir. Beloretsk Metallurgical Plant sources 73.5% of its water needs from recirculated and recycled water and the rest from a storage reservoir and a local river.

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

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

Trade restrictions

Trade restrictions in the form of tariffs and duties are widespread in the steel industry. However, we are less exposed than most other Russian steel producers to these trade restrictions as restrictions on Russian exports have mainly been directed against flat products, whereas most of our exports consist of long products and semi-finished products. In addition, the abolition by the Russian government of steel export duties in 2002 has also effectively improved exports of Russian steel. In the future the Russian government may restore export duties on steel products and may also impose export duties on some raw materials, such as coal and iron ore concentrate.

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In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. In February 2013, the European Commission initiated an expiry review of the antidumping measures applicable to imports of ferrosilicon. In April 2014, the antidumping duty was extended for another five years.

Quartzite Production

We hold the subsoil license for the Uvatskoye deposit of quartzite and quartzite sandstones, a raw material used for ferrosilicon production. The deposit is accessible by unpaved road and located 20 kilometers southwest of Nizhneudinsk in the Irkutsk region. In 2011, we conducted successful technological tests of an experimental batch of quartzite for smelting of ferrosilicon. We completed the exploration of the alluvial part of the southern area of the Uvatskoye deposit and applied to the Department for Subsoil Use for the Irkutsk region (**Irkutsknedra**) with a plan for the pilot commercial development of the alluvial part of the southern area. Irkutsknedra agreed the plan and recommended further geologic exploration within the entire license area of the Uvatskoye deposit. In 2012, drilling and sampling activities were conducted. Since 2013, we have been carrying out the pilot commercial development of the alluvial part of the southern area of the Uvatskoye deposit, with a view to develop the processing methods and technical and economic parameters of the deposit. Currently, in order to determine the qualitative characteristics of the mineral, laboratory studies of selected cores of the bedrock of the deposit are being conducted. We also continue the exploration of the other two areas of the Uvatskoye deposit. In light of the above, we are not able to state the amount of proven reserves for the Uvatskoye quartzite deposit.

The table below sets forth certain information regarding the subsoil license for our quartzite and quartzite sandstones deposit.

License Area	License Holder	License Expiry Date	Status[1]	Area (sq. km)	Year Production Commenced	Surface Land Use Rights
Uvatskoye	Bratsk Ferroalloy Plant	July 2033	Exploration and development	18.21	n/a	Lease

(1) Exploration and development refers to sites where preliminary work and drilling for calculation of mineral reserves are being carried out.

Power Segment

Our power segment generates and sells electricity to our group companies and to external customers. It enables us to market high value-added products made from our steam coal, such as electricity and heat energy, and to increase the electric power self-sufficiency of the mining and steel segments of our business. Our power segment consists of a power generating plant Southern Kuzbass Power Plant with installed capacity of 554 MW, power co-generation facilities at Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Urals Stampings Plant with installed capacity of 229 MW, 24.7 MW and 3.5 MW, respectively, and a power distribution company Kuzbass Power Sales Company. Our subsidiary Mechel Energo manages our power business.

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

	2015	2014
	(In million kWh)	
Electricity	4,137.4	3,682.1

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Southern Kuzbass Power Plant

Southern Kuzbass Power Plant is located in Kaltan in the Kemerovo region, which is in the southern part of Russia s coal-rich Kuzbass district. It has a total installed capacity of 554 MW and installed heat capacity of 506 Gcal/h. In 2015, the plant generated 2,435.5 million kWh of electricity and 661.6 thousand Gcal of heat energy. We acquired Southern Kuzbass Power Plant in 2007.

Southern Kuzbass Power Plant uses steam coal as fuel, which is supplied to it from local sources, including our Southern Kuzbass Coal Company. In 2015, it consumed 1.6 million tonnes of steam coal sourced 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 2015 (million kWh)
VK-50-2 LMZ	1950	April 1951	53	123.7
VK-50-2 LMZ	1950	November 1951	53	325.6
VK-50-2 LMZ	1950	August 1952	53	97.8
VK-50-2 LMZ	1952	February 1953	53	333.4
T-115-8,8 LMZ	1996	December 2003	113	336.2
T-88/106-90 LMZ	1953	July 1954	88	529.2
VK-50-2 LMZ	1954	December 1954	53	101.8
T-88/106-90 LMZ	1953	September 1956	88	587.7
Total			554	2,435.5

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

Kuzbass Power Sales Company

Kuzbass Power Sales Company is the largest power distribution company in the Kemerovo region. Its marketed power volume in 2015 amounted to approximately 11.0 billion kWh. We acquired Kuzbass Power Sales Company in 2007. The addition of Kuzbass Power Sales Company, along with Southern Kuzbass Power Plant, allows us to improve the utilization of our existing power co-generation capabilities and provides a base for growth in the power industry.

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

The company is included in the Register of Guaranteeing Suppliers of the Kemerovo region. For a discussion of guaranteeing suppliers, see Regulatory Matters Regulation of Russian Electricity Market Sales of electricity Retail electricity market.

Mechel Energo

Mechel Energo s core activity is the generation and sale of electricity, capacity and heat energy in the form of hot water and steam. In addition, it coordinates the supply of energy to our production facilities. The company has a separate business unit in Izhevsk, as well as branches in Chelyabinsk (including production department in Chebarkul), Beloretsk and Vidnoye. Mechel Energo also performs the functions of the sole executive body of its subsidiary Southern Kuzbass Power Plant.

Mechel Energo supplies heat energy (in the form of hot water and steam) at regulated prices to its consumers, including residential consumers and commercial customers, in the cities of Vidnoye, Chelyabinsk, Chebarkul, Beloretsk and Izhevsk.

Mechel Energo has co-generation facilities and operates using mainly blast furnace gas and coke gas, which is a by-product of steel-making, and natural gas, which we purchase from Novatek and Gazprom.

Mechel Energo s sales amounted to approximately 4.0 billion kWh of electricity purchased in the wholesale and retail electricity markets and 3.8 million Gcal of heat energy in 2015.

Capital Investment Program

We continually review our capital investment program in light of our cash flow, liquidity position, results of operations and market conditions. In light of the above factors, we may adjust our capital investment program. Our planned capital expenditures for 2016 are increased by approximately 117% as compared to 2015. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We will require a significant amount of cash to fund our capital investment program.

Our capital investment program includes capital spending of up to 27.4 billion rubles for 2016-2018. Our capital investment program is primarily targeted at expanding the mining segment and increasing the efficiency of the steel segment and includes, among others, investments of approximately 16.1 billion rubles in mining and approximately 8.3 billion rubles in steel. However, our ability to fully realize our capital investment program is constrained by our ability to generate cash flow, obtain additional financing and refinance or restructure existing indebtedness. We may be limited in our ability to obtain financing on a project finance basis which may impose further restrictions on the operations of the project or require the economic returns of the project to be shared with investors or lenders.

In the mining segment, we expect to direct approximately 6.3 billion rubles to the development of the Elga coal deposit in 2016-2018. We will invest approximately 1.9 billion rubles in 2016-2018 for increasing coal production at Sibirginskaya Underground which is part of Southern Kuzbass Coal Company.

The steel segment projects are targeted at expanding the share of high value-added products which we produce, while maintaining existing output, and are mainly focused on Chelyabinsk Metallurgical Plant. The main project, initiated in 2008, is the construction of a universal rail and structural rolling mill with a capacity of 1.1 million tonnes, which allows us to reduce the proportion of lower-value semi-finished products sales by increasing the production of high-quality rolled steel products and rails. The universal rail and structural rolling mill was launched in July 2013.

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The table below sets forth the major items of our capital expenditures by segment and facility for 2016-2018 (including cumulatively the expenditures made since the launch of the relevant project):

	Planned Increase in Capacity and/or Other Improvement	Approximate Total Planned Expenditures(1)	Year of Project Launch	Estimated Year of Completion
	(In millions of Russian rubles)			
Mining Segment				
Maintenance expenditures	Maintaining current coal and iron ore mining and coal and iron ore concentrate production	5,967	2016	2018
Elgaugol				
Construction of a rail line to the Elga coal deposit and the development of the Elga coal deposit	Providing access to and the development of the coal deposit with increase of production capacity to 11.7 million tonnes per annum	6,255	2009	2018
Southern Kuzbass Coal Company				
Increase of coal production at Sibirginskaya Underground	Increase production output to 2.4 million tonnes per annum	1,869	2009	2018
Steel Segment				
Maintenance expenditures	Maintaining current output capacity	1,756	2016	2018
Chelyabinsk Metallurgical Plant				
Construction of rolling facilities in blooming building	Introducing new types of rolled products for construction industry with a design capacity of 1.1 million tonnes per annum	1,870	2009	2018
Reconstruction of oxygen-converter production	Increase of cast weight to 152 tonnes	2,030	2009	2018
Power segment				
Maintenance expenditures	Maintaining current output capacity	896	2016	2018
Transport division				
Maintenance expenditures	Maintaining current output capacity	1,208	2016	2018
Port Posiet				
Technical modernization of Port Posiet	Increase of cargo-handling capacity to 9.0 million tonnes per annum	717	2009	2018

(1)

We estimate that approximately 1,132 million rubles of planned expenditures were spent on the aforementioned projects in 2015. In 2015, we spent 3,865 million rubles in total on capital expenditures.

Research and Development

We maintain research programs at the corporate level and at certain of our business units to carry out research and applied technology development activities. At the corporate level, we have a Department of Technology Development at Mechel-Steel Management (two employees) and a Production and Technical Department at Mechel Mining Management (11 employees). In December 2008, we established Mechel Engineering with a headcount of 321 employees to carry out design and engineering works to increase the efficiency of our mining business. Mechel Engineering has a head office in Novosibirsk and two offices in Russia s regions. Geological services provided by Mechel Engineering include: (1) geological survey work related to prospecting and developing minerals and coal deposits; (2) hydrogeological survey work; (3) monitoring of geological environment; (4) preparation of geological materials for feasibility studies and preparation of geological reports with reserves estimation; (5) test drilling (methane drainage borehole); and (6) computer simulation of coal and ore deposits.

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In the course of our research and development we also contract with third party consultants and Russian research institutions.

In addition to these activities performed at our corporate level, each of Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant have specialized research divisions with a total of 163 employees involved in the improvement of existing technologies and products.

Our research and development expenses in the years ended December 31, 2015 and 2014 were not significant.

Insurance

Most of our Russian production facilities have no comprehensive insurance coverage against the risks associated with the business in which we operate, other than insurance required under Russian law, existing collective agreements, loan agreements or other undertakings. Our Russian facilities have a number of compulsory insurance policies: liability of the owner of a hazardous facility for injury in an accident at a hazardous facility, third-party liability motor vehicle insurance and other forms of insurance. Some of our facilities provide their workers with medical insurance and accident and health insurance in accordance with existing collective bargaining agreements. In addition, most of our Russian facilities have voluntary motor vehicle insurance, and some of our facilities have cargo insurance, property insurance (real property and machinery) and certain types of third-party liability insurance.

Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. However, they all have the compulsory insurance coverage required under the law of their respective jurisdictions: motor vehicle liability insurance, pollution liability insurance, employer liability, etc. Furthermore, some of our international facilities carry insurance coverage for their property (real property and machinery, inventory, motor vehicle), liability (third-party liability, professional and product liability), cargo (including freight insurance), accounts receivable, financial losses related to the abuse of the employees, as well as medical insurance, litigation insurance and accident insurance for their workers.

Environmental Protection

Similar to other companies operating in the industries in which we operate, our activities may have an adverse impact on the environment due to emission of coal and coke dust and other pollutants and hazardous materials into the atmosphere, discharge of polluted waste water into the environment and generation of waste and hazardous materials that need to be disposed of or reused without serious damage to the environment.

Our environmental policy has the following key components:

- implement formal environmental management systems that are aligned with applicable international standards;
- identify, assess, monitor, control and manage significant environmental risks;
- establish clear and meaningful environmental objectives and targets aimed at continuous improvement;

implement, maintain and regularly test emergency response plans;

identify potential environmental emergencies; and

comply with all applicable laws and regulations and when practicable, strive to exceed those requirements.

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

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Regulatory Matters

Licensing of Operations in Russia

We are required to obtain numerous licenses, authorizations and permits from Russian governmental authorities for our operations. Some of our companies need to obtain licenses, authorizations and permits to carry out their activities, including, among other things, for:

- the use of subsoil, which is described in more detail in Subsoil Licensing in Russia below;
- the use of water resources;
- the emission and discharge of pollutants into the environment;
- the handling of waste of a I-IV hazard class;
- the handling of industrial explosives;
- operation of explosive and fire and chemically hazardous production facilities of a I-III hazard class;
- fire control and security;
- medical operations;
- mine surveying;
- loading and unloading operations relating to dangerous goods;
- transportation activities;
- storage, processing and sale of ferrous and non-ferrous scrap;
- works with information classified as state secret;

manufacturing of equipment for nuclear facility; and

operation of radiation source.

The Federal Law On Licensing of Certain Types of Activities, dated May 4, 2011, as amended (the **Licensing Law**), as well as other laws and regulations, sets forth the activities subject to licensing and establish procedures for issuing licenses.

Under the Licensing Law, generally, licenses may be issued for an indefinite term. Licenses for the use of natural resources may be issued for various periods. Upon the expiration of a license, it may be extended upon application by the licensee, provided the licensee is not in violation of the terms and conditions of the license and the relevant regulations.

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

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in a timely fashion, or may impose requirements which restrict our ability to conduct our operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of our licenses and permits, some of our companies must comply with numerous industrial standards, employ qualified personnel, maintain certain

equipment and a system of quality controls, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

Subsoil Licensing in Russia

In Russia, mining minerals requires a subsoil license from Rosnedra with respect to an identified mineral deposit. In addition to a subsoil license, a subsoil user needs to obtain rights (through ownership, lease or other right) to use a land plot covering the surface of the area where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

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

Among different licenses required for mining minerals in Russia, the two major types of licenses are: (1) an exploration license, which is a non-exclusive license granting the right of geological exploration and assessment within the license area, and (2) an extraction license, which grants the licensee an exclusive right to produce minerals from the license area. In practice, many of the licenses are issued as combined licenses, which grant the right to explore and produce minerals from the license area. A subsoil license defines the license area in terms of latitude, longitude and depth. The subsoil user has the right to develop and use, including sell, mineral resources extracted from the license area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil mineral resources.

There are two major types of payments with respect to the extraction of minerals: (1) periodic payments for the use of subsoil under the Subsoil Law; and (2) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The Subsoil Law-mandated payments are not material to our mining segment s results of operations. For coal, the basic rate of the mineral extraction tax ranges from 11 to 57 rubles per tonne depending on the type of coal. At the same time, the actual rate of tax in respect of extracted coal is subject to indexation on a quarterly basis taking into account deflator coefficients adopted by the Ministry of Economic Development of the Russian Federation. For iron ore and for nickel, the mineral extraction tax is 4.8% and 8%, respectively. In 2015, mineral extraction taxes amounted to 1,026 million rubles, which are included in the statement of income and comprehensive income as extraction related overheads.

Currently, extraction licenses and combined licenses are awarded by tender or auction conducted by special auction commissions of Rosnedra. While such tender or auction may involve a representative of the relevant region, the separate consent of regional authorities is generally not required in order to issue subsoil licenses. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances, extraction licenses may also be issued without holding an auction or tender, for instance to holders of exploration licenses who discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue extraction licenses for common mineral resources, such as clay, sand or limestone.

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Pursuant to the Subsoil Law, a subsoil plot is provided to a subsoil user as a mining allotment, i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the license is issued. Following the development and approval of a technical plan in accordance with established procedure, documents defining the adjusted mining allotment boundaries are incorporated as an integral part into the license. Pursuant to Resolution No. 118 of the Government of the Russian Federation dated March 3, 2010, as amended, a special commission comprised of representatives from the Ministry of Natural Resources and Ecology, Rosnedra, Rosprirodnadzor, Rostekhnadzor and relevant local authorities approve development plans and other project documentation relating to the use of subsoil plots.

The term of the license is set forth in the license. Under the Subsoil Law, exploration licenses are generally issued for a term of up to five years and up to 10 years for geological surveys of internal sea waters, territorial sea waters or the continental shelf of the Russian Federation. In accordance with amendments to the Subsoil Law that entered into force in January 2014, exploration licenses with respect to subsoil plots partially or fully located in certain constituent entities of the Russian Federation can be issued for a term of up to seven years. Extraction licenses are issued for the term of the expected operational life of the field based on a feasibility study that provides for rational use and protection of the subsoil. In the event that a prior license with respect to a particular field is terminated early (for example, when a license is withdrawn due to non-usage of the licensed subsoil), an extraction license may have a one year term until a new licensee is determined, but is generally granted to another user for the term of the expected operational life of the field based on a feasibility study. Licensees are also allowed to apply for extensions of such licenses for the purposes of completing the exploration and development of the field, or remediation activities in the absence of violations of the terms and conditions of the license. The term of a subsoil license runs from the date the license is registered with Rosnedra.

Issuance of licenses

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

Extension of licenses

The Subsoil Law permits a subsoil licensee to request an extension of an extraction license for the term of the expected operational life of the subsoil plot in order to complete the extraction from the subsoil plot covered by the license or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user is not in violation of the terms and conditions of the license and the relevant regulations.

In order to extend the period of a subsoil license, a company must file an application with territorial authorities of Rosnedra to amend the license. In addition, as we have seen in practice, a subsoil licensee may be required to prepare and provide to the authority amended technical documentation and development plan of the deposit under the license justifying the requested extension. The costs associated with the license extension are generally not substantial and mainly relate to preparing amendments to the technical documentation and development plan of the subsoil plot. Application to extend the period of subsoil license is typically made six months before its expiration.

To the best of our knowledge, derived from publicly available information, the relevant governmental authorities when determining whether to approve an amendment (including an extension) of a license consider the following: (1) the grounds for the amendments, with specific information as to how the amendments may

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impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the license; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended license. We have successfully extended certain of our subsoil licenses which were due to expire for the entire term of the expected operational life of the subsoil plots. The terms of the licenses were extended in accordance with the amendments we made to the development plans of the subsoil plots. Furthermore, as evidenced by a number of court cases during the past several years, license extensions are being rejected predominantly on the grounds of subsoil users being in violation of the material terms of the licenses. Though current regulation does not specify what license terms are material, current practice suggest that regulatory authorities tend to treat as material terms of the license the terms related to license payments, production levels and operational milestones.

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

Transfer of licenses

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

Maintenance and termination of licenses

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

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

The fulfillment of a license s conditions is a major factor in the good standing of the license. If the subsoil licensee fails to fulfill the license s conditions, upon notice, the license may be terminated or the subsoil user s

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rights may be restricted by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or extraction output as set forth in a license, it may apply to amend the relevant license conditions, though such amendments may be denied.

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

Rosprirodnadzor routinely conducts scheduled and unscheduled inspections for compliance by subsoil users with the terms of their licenses and reports violations to Rosnedra. Rosnedra examines Rosprirodnadzor s reports and, if it finds that these violations constitute sufficient grounds for terminating the license, the Commission for Termination of Subsoil Licenses considers the nature of these violations and recommends that Rosnedra either (i) revoke the license; (ii) notify the subsoil user about the identified violations and potential termination of the license if the subsoil user fails to rectify the identified violations within a prescribed period of time; or (iii) consider that the actions described in (i) and (ii) above are unreasonable and accept the information provided by the subsoil user.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to the termination of a license or the refusal to change an existing license, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases prior to termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three month period, no termination or other action may be taken.

Land Use Rights in Russia

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

Under the Land Code, companies generally have ownership or lease rights with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation is owned by federal, regional or municipal authorities who, through bidding (carried out in the form of an auction) or without bidding, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law On Introduction of the Land Code, dated October 25, 2001, as amended, with certain exceptions (such as for the land plots occupied with transportation, communications and utilities lines, for which companies may re-register the right of perpetual use until January 1, 2016), required companies using land pursuant to rights of perpetual use by July 1, 2012 either to purchase the land from, or to enter into a lease agreement relating to the land with, the relevant federal, regional or municipal authority acting as owner of the land. Failure to transfer the title by January 1, 2013 triggers administrative liability. In case of the lease, the companies can still purchase such land after July 1, 2012 provided that they have registered the lease relating to the land.

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

Environmental Legislation in Russia

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

Since 2008, the Ministry of Natural Resources and Ecology has been working on significant amendments to the Environmental Protection Law and other regulations. These amendments were codified in the Federal Law No. 219-FZ, dated July 21, 2014, the Federal Law No. 458-FZ, dated December 29, 2014 and the Federal Law No. 404-FZ, dated December 29, 2015, which have already come into force or are gradually coming into force. The purpose of the amendments is to strengthen liability for companies non-compliance with environmental laws and regulations, as well as to improve the distribution of functions among state environmental agencies at both the federal and regional levels.

The amendments, in particular, divide objects that have a negative impact on the environment into four categories depending on the degree of impact on the environment. The environmental protection requirements that apply differ depending on the relevant impact category and include environmental impact charges, permission documents and control procedures. The first category includes objects that have a significant negative impact on the environment (to which, therefore, the strictest environmental protection requirements apply) and the fourth category includes objects that have minimal environment impact. Among other things, the adopted amendments contemplate that starting from 2020 charges for environmental impact exceeding regulatory thresholds will increase. Furthermore, the liability for certain environmental violations has been enhanced recently, and the fines for certain environmental offenses, for example, in connection with violations of water use requirements, increased by 15 times the current amounts. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry More stringent environmental laws and regulations or more stringent enforcement or findings that we have violated environmental laws and regulations could result in higher compliance costs and significant fines and penalties, cleanup costs and compensatory damages, or require significant capital investment, or even result in the suspension of our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Pay-to-pollute

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

The Russian government has established standards relating to the permissible impact on the environment and, in particular, standards of permissible emissions and discharges and waste disposal limits. In case of non-compliance with the statutory standards a company may obtain temporary approved limits on emissions and discharges on the basis of permits valid only during the period of implementation of environmental measures. The establishment of limits is allowed only upon the availability of a plan for emissions and discharges reduction agreed with Rosprirodnadzor. The emissions and discharges reduction plan is required to be implemented within a specific period with an annual submission of a report on its implementation to Rosprirodnadzor. Rosprirodnadzor may revoke the limits, if the company fails to implement measures to reduce emissions and discharges in a timely manner. If, by the end of that period, the company s emissions and discharges are still in excess of the statutory standards, a new plan must be submitted to Rosprirodnadzor for review and approval in order to receive new limits.

Fees for the emission/discharge per tonne of each contaminant into air and water and fees for waste disposal are established by governmental authorities. These fees are determined on a sliding scale for both the statutory standards and individually approved limits on emissions and discharges, as well as for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory standards, intermediate fees are imposed for pollution within the individually approved temporary limits (within limit fees; exceed the fees within the statutory standards by 5 times) and the highest fees are imposed for pollution exceeding such limits (above-limit fees; exceed the fees within the individually approved temporary limits by 5 times). Thus, above-limit fees exceed the fees within the statutory standards by 25 times. In accordance with recent amendments to the Environmental Protection Law, starting from 2020, environmental impact charges exceeding regulatory thresholds in certain cases will be increased by up to 100 times current fees as statutorily prescribed. Payment of above-limit fees does not relieve the company from the responsibility as provided by Russian law, as well as the development and implementation of environmental measures aimed at reducing the negative impact on the environment. In 2015, we incurred above-limit fees and penalties in Russia in the amount of approximately 94.9 million rubles.

Environmental expert review

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

In relation to our operating companies, all documentation underlying the issuance of some of our licenses is subject to environmental expert review.

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

Environmental enforcement authorities

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

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

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The structure of environmental enforcement authorities described above was established in 2004. This structure was subjected to certain changes in 2008 and 2010. In particular, the Ministry of Natural Resources was transformed into the Ministry of Natural Resources and Ecology. In late 2010, this structure was further changed and the powers previously held by Rostekhnadzor in the field of environmental protection regarding the limitation of negative industrial impact, waste treatment and state environmental impact assessments were transferred to Rosprirodnadzor which is coordinated by the Ministry of Natural Resources and Ecology.

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 cleanup 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 technical stage, we backfill the pits, grade and terrace mound slopes, level the surface of the mounds, and add clay rock on top for greater adaptability of young plants. In the biological stage, we plant conifers (pine, larch, cedar) on horizontal and gently sloping surfaces and shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States. In 2015, we incurred reclamation costs in Russia of approximately 403 million rubles.

Kyoto Protocol

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

Technical Regulations

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

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

Health and Safety Regulations in Russia

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

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

The Safety Law provides for hazardous production facilities of four classes from class IV to class I, with class IV being less hazardous and class I being the most hazardous. The safety and compliance requirements set up by the Safety Law apply to each facility depending on their class of hazard. Each existing hazardous production facility was to be re-registered with the state register by January 1, 2014 and be assigned with a hazard class. We re-registered hazardous production facilities at our operations in accordance with the applicable law.

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

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

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

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safety management systems to prevent accidents and incidents at hazardous production facilities and develop certain emergency response plans.

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

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

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

Russian Antimonopoly Regulation

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

other than in respect to financial organizations, such as banks, an acquisition by a person (or its group) of more than 25% of the voting shares of a Russian joint-stock company (or one-third of the interests in a Russian limited liability company), except upon incorporation, and the subsequent increase of these stakes to more than 50% of the total number of the voting shares and more than 75% of the voting shares (one-half and two-thirds of the interests in a Russian limited liability company), or acquisition by a person (or its group) of ownership or rights of use with respect to the core production assets and/or intangible assets of an entity which are located in Russia if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity, or obtaining rights to determine the conditions of business activity of a Russian entity or to exercise the powers of its executive body by a person (or its group), or an acquisition by a person (or its group) of more than 50% of the voting shares (interests) of a foreign entity, which has supplied goods, works and/or services to Russia in an amount exceeding 1 billion rubles in the preceding year, or other rights to determine the conditions of business activity of such entity or to exercise the powers of its executive body, if, in any of the above cases, the aggregate asset value of an acquirer and its group together with a target and its group (excluding the asset value of the seller and its group, if as a result of the acquisition the seller and its group cease to determine the conditions of business activity of the target) exceeds 7 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles, or the total annual revenues of such acquirer and its group, and the target and its group for the preceding calendar year exceed 10 billion rubles and at the same time the total asset value of the target and its group exceeds 250 million rubles;

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

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

- entering into joint venture agreements between competitors, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds 7 billion rubles, or total annual revenues of such entities (or groups of persons to which they belong) for the preceding calendar year exceed 10 billion rubles.

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

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

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

- establishing and maintaining monopolistically high or monopolistically low prices of goods;

- withdrawing goods from circulation, if the result of such withdrawal is an increase in the price of goods;

imposing contractual terms upon a counterparty which are unprofitable for the counterparty or not related to with the subject matter of agreement (i.e., terms that are economically or technologically unjustified);

reducing or terminating, without economical or technological justification, production of goods if there is a demand for the goods or orders for their delivery have been placed and it is possible to produce them profitably;

refusing or evading, without economical or technological justification, to enter into a contract with customers in cases when the production or delivery of the relevant goods is possible;

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- establishing without economical, technological or other justification different prices for the same goods;
- establishing unjustifiably high or unjustifiably low price of a financial service by a financial organization;
- creating discriminatory conditions;
- creating barriers to entry into the market for the relevant goods or forcing other companies to leave the market;
- violating pricing procedures established by law; and
- manipulating prices in the wholesale and/or retail electricity (capacity) markets.

In 2016, as a result of amendments to the Competition Law, the register of entities with a market share exceeding 35% in the relevant market was abolished. Inclusion of a company in the register implied that it might be subject to additional FAS oversight, but at the same time provided the company with information on the occupied market share. The abolition of the register creates additional antimonopoly risks to the company.

In order to prevent the creation of discriminatory conditions, the Government of the Russian Federation can establish rules for non-discriminatory access to goods that are produced and/or sold by a business entity holding a dominant position and not included into the register of natural monopolies whose share exceeds 70% in the relevant market. Such rules may be established in case a decision of the antimonopoly authority on the fact of abuse of a dominant position by such business entity entered into force.

In the event of breach of any terms of business conduct required by the FAS, the FAS may initiate proceedings to investigate a breach of antimonopoly laws. If a breach of the antimonopoly laws is identified, the FAS may initiate administrative proceedings which may result in the imposition of a fine calculated on the basis of the annual revenues received by the company in the market where such breach was committed. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sales of all goods, works and services in the market where such violation was committed, but not more than 2% of gross proceeds of sale of all goods, works and services for the year preceding the year of the violation. Russian legislation also provides for criminal liability of company managers for violations of certain provisions of antimonopoly legislation. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization.

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

The Strategic Industries Law

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

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

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

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

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

Employment and Labor Regulations in Russia

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

Employment contracts

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

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

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

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position s requirements due to incompetence, as confirmed by the results of an attestation;
- repeated failure of the employee to fulfill his or her work duties without valid reason, provided that the employee has been disciplined previously;

entering the workplace under the influence of alcohol, narcotics or other intoxicating substances;

a single gross breach by an employee of his or her work duties, including truancy;

disclosure of state secrets or other confidential information, which an employee has come to know during fulfillment of his professional duties;

embezzlement, willful damage or destruction of assets, and misappropriation as confirmed by a court decision or a decision by another competent governmental authority;

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failure to comply with safety requirements in the workplace if such failure to comply caused injuries, casualties or catastrophe; and

provision by the employee of false documents upon entry into the employment contract.

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

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

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

Work time

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

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

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

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, employees who work in underground and open pit mines or do other work in potentially harmful conditions have the right to retire at an earlier age. Early retirement ages are established by the applicable legislation.

Salary

The minimum monthly salary in Russia, as established by federal law, is 6,204 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

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

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Trade unions

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

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

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

As part of their activities, trade unions may:

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

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

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union

association;

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

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

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

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

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

Regulation of Russian Electricity Market

Industry background

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

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

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

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

Sales of electricity

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

Wholesale electricity market

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

The wholesale market participants mainly include:

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

The infrastructure of the wholesale market is operated by the Non-profit Partnership Market Council and the Trade System Administrator OAO which organize the trading; a system operator established by the former RAO UES in the form of an open joint-stock company (SO UES JSC); the Russian Grids JSC, which owns and operates the federal and regional transmission networks; and the Financial Settlement Center ZAO, which is a clearance and settlement organization for the wholesale electricity and capacity market.

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

Regulated bilateral contracts

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

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

Non-regulated bilateral contracts

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

Retail electricity market

The retail market participants include consumers, power supply companies, guaranteeing suppliers, power grid companies and electricity producers which do not supply electricity to the wholesale market.

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

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

Heat market

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

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

E.U. REACH

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

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

Item 4A. *Unresolved Staff Comments*

None.

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Item 5. *Operating and Financial Review and Prospects*

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

In this Item 5, the term domestic describes sales by a subsidiary within the country where its operations are located. The term export describes cross-border sales by a subsidiary regardless of its location. See note 28 to the consolidated financial statements.

History of Incorporation

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

Business Structure

Segments

We have organized our businesses into three segments:

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

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

- the power segment, comprising power generating facilities, which supply electricity and heat energy to our mining and steel segments and also sells a portion of electricity and heat energy to third parties.

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

Name	Product/Business

	Location of Assets		Date Control Acquired	Voting Interest[1] %
Mining Segment				
Southern Kuzbass Coal Company	Russia	Coking coal, steam coal, anthracite and PCI	January 1999	96.6%
Korshunov Mining Plant	Russia	Iron ore concentrate	October 2003	90.0%
Port Posiet	Russia	Seaport: coal warehousing and transshipment	February 2004	97.5%
Mechel Coke	Russia	Coke and chemical products	June 2006	100.0%
Moscow Coke and Gas Plant	Russia	Coke and chemical products	October 2006	99.5%

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Name	Location of Assets	Product/Business	Date Control Acquired	Voting Interest[1] %
Yakutugol	Russia	Coking coal, steam coal	October 2007	100.0%
Port Temryuk	Russia	Seaport: coal and metal transshipment	March 2008	100.0%
Elgaugol	Russia	Coking coal, steam coal	August 2013	99.9%
Steel Segment				
Chelyabinsk Metallurgical Plant	Russia	Semi-finished steel products, carbon and stainless long and flat steel products	December 2001	94.2%
Vyartsilya Metal Products Plant	Russia	Wire products	May 2002	93.3%
Beloretsk Metallurgical Plant	Russia	Long steel products, wire products	June 2002	91.5%
Urals Stampings Plant	Russia	Stampings and forgings	April 2003	93.8%
Mechel Nemunas	Lithuania	Wire products	October 2003	100.0%
Izhstal	Russia	Carbon and special steel long products and wire products	May 2004	90.0%
Port Kambarka	Russia	River port	April 2005	90.4%
Bratsk Ferroalloy Plant	Russia	Ferrosilicon	August 2007	100.0%
Power Segment				
Mechel Energo	Russia	Electricity generation and sale	February 2004	100.0%
Southern Kuzbass Power Plant	Russia	Electricity generation	April 2007	98.3%
Kuzbass Power Sales Company	Russia	Electricity distribution	June 2007	72.1%

(1) The percentages provided in this table are as of December 31, 2015. Some of our Russian subsidiaries have preferred shares outstanding that have voting rights commensurate with common shares if dividends on those shares have not been paid. We have calculated voting interests by including these preferred shares for subsidiaries where dividends have not been paid.

Intersegment sales

We are an integrated group with operations organized into mining, steel and power segments. Our group companies supply materials to other companies in the same reporting segment or different reporting segments. For example, for the year ended December 31, 2015:

The mining segment supplied approximately 36% of the steel segment s iron ore concentrate requirements, 100% of the steel segment s coke requirements and 89% of the power segment s coal requirements;

The steel segment supplies wires, ropes, wire products and other metal products to the mining segment for use in its day-to-day operations; and

The power segment supplied approximately 29% of our group s overall electricity requirements.

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

Recent acquisitions and disposals

Set out below is our key disposal during 2014-2015. There were no significant acquisitions during 2014-2015. For more detail see notes 6 and 17 to the consolidated financial statements. The financial and sales information for the periods presented herein may not be directly comparable from period to period due to this disposal.

Bluestone. In February 2015, we disposed of 100% of shares in Mechel Bluestone Inc., the holding company of our coal assets in the United States, to a company owned by the Justice family. The total consideration consisted of: (1) an immediate cash payment of $5 million (RUB 330.3 million as of February 12, 2015); (2) future royalty payments on coal mined and sold in the amount of $3.00 (RUB 198.2 as of February 12, 2015) per short ton, capped at $150 million (RUB 9,908.8 million as of February 12, 2015); (3) a portion of a sale price in case of any future sale of Bluestone and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closes within five or from five to ten years, respectively, of the sale to the Justice family. The results of operations of Bluestone companies are included in the consolidated financial statements as discontinued operations. See note 17 to the consolidated financial statements.

Factors Affecting Our Results of Operations and Financial Condition

Change in reporting currency

Beginning with the period commencing on January 1, 2015, the presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The reason of adopting the Russian ruble as the presentation currency in the consolidated statements under IFRS is to allow a greater transparency of our financial and operating performance.

Cyclical nature of business and impact of macroeconomic factors

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

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

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

Global real GDP grew by 2.6% in 2014 and 2.4% in 2015, according to the World Bank. According to Rosstat, Russia recorded GDP growth of 0.6% in 2014 and GDP decline of 3.7% in 2015. In 2014, world markets continued their slowdown amid slowing economic growth in China, the European debt crisis and geopolitical tensions. In 2015, the global economy was under pressure due to slowing growth in China, geopolitical tensions and high levels of over-production of hydrocarbon raw materials and as a result of low oil prices and it is expected that in 2016 these trends will continue to have an adverse impact on world markets for our products. Prices for our products fluctuated depending on the level of demand in key consuming industries and supply and demand balance in our key markets. See Price trends for products.

Trade and competition

Mining products and many types of steel products are considered commodities and treated as fungible in the world markets. As such, we compete with steel producers and mining companies with operations in different countries. The main competitive advantages that steel producers can secure are based on quality and production costs. Generally, steel producers in economically developed regions compete primarily based on quality of steel, while we and other steel producers in developing countries compete in the international market based primarily on price. With respect to our mining products, such as coal and iron ore, quality, production costs and transportation capabilities are key areas where companies seek a competitive advantage.

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

Consolidation trends in the steel and mining industries

The global financial crisis sharply slowed the pace of consolidation in the steel industry. Despite demand growth in 2014 and slight decrease in 2015, steel-making capacity still exceeds steel demand. There is now significant over-capacity in the global steel sector which is putting pressure on operators profitability. Future potential consolidation in the steel industry should enable steel producers to maintain more consistent performance through cycles in the steel industry by achieving greater efficiency and economies of scale.

The mining industry has been severely impacted by the decline in coal prices since the end of 2011. Prices have fallen by nearly three times in 2011-2015 while production decline has lagged. Profitability of coal producers has declined. Currently, major mining companies are scaling back acquisitions and looking to divest non-core and underperforming assets, some of which were acquired just several years ago. Diversified mining companies have corrected their strategy to focus on profitable operations and reduce their exposure to coal.

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

Price trends for products

Coking coal and steam coal

Throughout 2014, the price for metallurgical coal declined driven by lower demand from Chinese consumers, as well as an increase in low-cost supply from the Australian coking coal producers. As a result, contract prices fell from $143 per tonne (FOB Australia) in the first quarter of 2014 to $119 per tonne (FOB Australia) in the fourth quarter of 2014, according to CRU. The average contract price in 2014 was $125 per tonne, 21% below the average price in 2013. The average spot price in 2014 was $114 per tonne (FOB Australia), 23% below the average price in 2013, according to CRU. During 2015, global metallurgical coal prices were under pressure as demand continued to decline and oversupply remained. According to CRU, quarterly contract price dropped from $117 per tonne (FOB Australia) in the first quarter of 2015 to $89 per tonne (FOB Australia) in the fourth quarter of 2015. Spot prices declined from $106 per tonne (FOB Australia) in the first quarter of 2015 to $78 per tonne (FOB Australia) in the fourth quarter of 2015, according to CRU. The average contract price in 2015 was $102 per tonne, 18% below the average price in 2014. The average spot price in 2015 was $90 per tonne (FOB Australia), 21% below the average price in 2014. In this low-price environment, many producers were operating at a loss.

At the beginning of 2014, the spot price for steam coal was $83 per tonne (CIF Amsterdam/Rotterdam/Antwerp); by the end of the year it dropped to $70 per tonne, according to Platts. The average price in 2014 was $75 per tonne (CIF Amsterdam/Rotterdam/Antwerp), 8% lower than the average price in 2013, according to Platts. Among the factors which had led to lower prices in the world market for steam coal were the decline in demand from the Chinese and European economies, as well as the growth in supply from Australian producers. The reduction of prices in the steam coal market was also due to a general decline in energy prices in 2014. In 2015, steam coal market was still in oversupply, despite producers efforts to cut production. Chinese power generation and consumption growth has slowed significantly in 2015. According to Platts, in 2015 the spot price for steam coal was $58 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in January; by the end of the year it declined to $48 per tonne. The average price in 2015 was $56 per tonne (CIF Amsterdam/Rotterdam/Antwerp), 25% lower than the average price in 2014, according to Platts.

Iron ore

During 2014, the iron ore spot price decreased from a high of $128 per dry metric tonne (62% Fe, CFR China) in January to a low of $69 per dry metric tonne in December, according to Platts. The average spot price in 2014 was $97 per dry metric tonne which was 28% lower than the average price in 2013, according to Platts. The price decrease was due to sharp increase in low-cost supply from the Australian and Brazilian producers. In 2015, this trend continued: a lot of new iron ore capacity came on stream which together with a reduction of steel production in China has led to lower prices. Iron ore spot price declined from $68 per dry metric tonne (62% Fe, CFR China) in January to $40 per dry metric tonne in December, according to Platts. The average spot price in 2015 was $56 per dry metric tonne which was 42% lower than the average price in 2014, according to Platts.

Coke

In 2014, world market prices for coke were under pressure due to negative trends in the global steel and raw materials market, which resulted in a decrease in prices from $249 per tonne (62% CSR, FOB North China basis) at the beginning of the year to $184 per tonne (62% CSR, FOB North China basis) at the end of the year, according to Platts. Domestic coke prices managed to stay at the level of 2013, namely 6,983 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. By the end of the year, however, domestic coke prices fluctuated around 7,600-8,800 rubles per tonne (including VAT, FCA basis), according to Metal-Courier. The increase in domestic coke prices was due to an increase in demand from Ukrainian consumers and to devaluation of the ruble. In 2015, coke production continued to overshoot demand, Chinese export volume has increased, exacerbating oversupply and displacing market share of other coke producing countries in international markets, thus pressuring prices further. As a result coke prices declined from $179 per tonne (62% CSR, FOB North China basis) in January to $113 per tonne (62% CSR, FOB North China basis) in December, according to Platts. Average domestic coke price in 2015 was 10,892 rubles per tonne (including VAT, FCA basis), 56% higher than the average price in 2014, according to Metal-Courier. Price growth in the domestic coke market was due to depreciation of Russian ruble, higher coking coal prices and strong demand from Ukraine.

Steel

In 2014, the Russian domestic price for rebar declined to $528 (-12% year-on-year) per tonne as a result of increased competition and the export price for square billets declined to $481 (-6% year-on-year) per tonne, according to Metal-Courier. In 2015, the prices have reduced significantly, thus the Russian domestic price for rebar declined to $345 (-35% year-on-year) per tonne and the export price for square billets declined to $325 (-32% year-on-year) per tonne as a result of decreased oil and scrap prices, low demand and increased competition on the background of China s exports growth, according to Metal-Courier.

Ferrosilicon

In 2014, ferrosilicon prices decreased throughout the year. In January 2014, the average price level for Chinese ferrosilicon was $1,475 per tonne (75% Si, CIF Japan). By the end of the year, ferrosilicon prices fell to $1,341 per tonne (75% Si, CIF Japan), according to TEX. In the beginning of 2015, the price of ferrosilicon

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continued to fall. In May 2015, the price decline has stopped at $1,242 per tonne (75% Si, CIF Japan), according to TEX. After a relatively stable position in June-August, ferrosilicon prices resumed falling. In December 2015, prices dropped to $1,156 per tonne (75% Si, CIF Japan), according to TEX.

Freight costs

During 2015, ocean freight rates continued to decline, reaching record lows in the fourth quarter of 2015. In 2015, the largest decrease in the dry bulk sector came from the Capesize sector, where the average time charter rate decreased from $14,842 per day in 2014 to $8,127 per day in 2015, a decrease of 45%. The average Panamax rate was $5,560 per day in 2015 compared to $7,718 per day in 2014. The average rate for Supramax vessels in 2015 was $6,695 per day compared to $9,818 per day in 2014. The average rate for Handysize vessels in 2015 was $5,381 per day compared to $7,681 per day in 2014.

With the exception of a third quarter spike in freight activity and rates, mostly driven by a surge in Capesize iron ore shipments to China, the Baltic Index had a negative trend, finishing the year at record lows. The decrease in freight prices in 2015 was mainly due to sluggish Asian commodities demand, vessel oversupply and the collapse of bunker fuel prices, which compromise a substantial part of voyage freight rates. Furthermore, lower bunker prices ended much of the practice of slow-steaming, therefore creating even more vessel supply.

Exchange rates

Our products are typically priced in rubles for Russian and the CIS sales and in U.S. dollars or euros for international sales. Our direct costs, including raw materials, labor and transportation costs are largely incurred in rubles and other local currencies, while other costs, such as interest expenses, are incurred in rubles, euros and U.S. dollars. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues.

Results of Operations

The following table sets forth our consolidated statement of income data for the years ended December 31, 2015 and 2014.

	Year Ended December 31,			
	2015		**2014**	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of Russian rubles, except for percentages)			
Revenue	253,141	100.0%	243,992	100.0%
Cost of goods sold	(151,334)	(59.8%)	(153,057)	(62.7%)
Gross profit	101,807	40.2%	90,935	37.3%
Selling, distribution and operating expenses, net	(77,739)	(30.7%)	(90,048)	(36.9%)
Operating profit	24,068	9.5%	887	0.4%

Other income and (expense), net	(131,196)	(51.8%)	(131,974)	(54.1%)
Loss before tax from continuing operations	(107,128)	(42.3%)	(131,087)	(53.7%)
Income tax (expense) benefit	(8,322)	(3.3%)	8,822	3.6%
Loss for the year from continuing operations	(115,450)	(45.6%)	(122,265)	(50.1%)
Profit (loss) after tax for the year from discontinued operations, net	822	0.3%	(11,702)	(4.8%)
Loss for the year	(114,628)	(45.3%)	(133,967)	(54.9%)
Less: profit (loss) attributable to non-controlling interests	535	0.2%	(1,263)	(0.5%)
Loss attributable to equity holders of the parent	(115,163)	(45.5%)	(132,704)	(54.4%)

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Year ended December 31, 2015 compared to year ended December 31, 2014

Revenues

Consolidated revenues increased by RUB 9,149 million, or 3.7%, to RUB 253,141 million in the year ended December 31, 2015 from RUB 243,992 million in the year ended December 31, 2014.

The sales increase was due to an increase in sales prices across our major segments and changes of exchange rates of the U.S. dollar to the Russian ruble.

The following table sets forth our net revenues by segment, including a breakdown by sales to third parties and other segments.

Revenues by Segment	Year Ended December 31, 2015	2014
	(In millions of Russian rubles, except for percentages)	
Mining segment		
To third parties	80,632	79,509
To power segment	1,800	1,658
To steel segment	26,291	19,391
Total	108,723	100,558
Steel segment		
To third parties	146,032	138,660
To power segment	5,475	5,354
To mining segment	1,497	2,853
Total	153,004	146,867
Power segment		
To third parties	26,477	25,823
To steel segment	11,131	10,913
To mining segment	3,858	2,818
Total	41,467	39,554
Eliminations	50,052	42,986
Consolidated revenues	253,141	243,992
% from mining segment	31.9%	32.6%
% from steel segment	57.7%	56.8%
% from power segment	10.5%	10.6%

Mining segment

Our total mining segment sales increased by RUB 8,165 million, or 8.1%, to RUB 108,723 million in the year ended December 31, 2015 from RUB 100,558 million in the year ended December 31, 2014.

Coking coal concentrate sales to third parties decreased by RUB 3,436 million, or 11.2%, to RUB 27,210 million in the year ended December 31, 2015 from RUB 30,645 million in the year ended December 31, 2014, as a result of a decrease in sales volumes of RUB 9,975 million that was partially offset by an increase in sales prices of RUB 6,539 million. The growth of prices denominated in Russian rubles for coking coal was due to depreciation of the ruble while export sales of coking coal decreased from 81.8% in the year ended December 31, 2014 to 73.6% in the year ended December 31, 2015. During 2015, global coal prices were under pressure as demand continued to decline and oversupply remained, therefore coking coal prices continued to decline. The average contract price in 2015 was $102 per tonne, 18% below the average price in 2014. The average spot price in 2015 was $90 per tonne (FOB Australia), 21% below the average price in 2014.

The volume of coking coal concentrate sold to third parties decreased by 2,531 thousand tonnes, or 32.5%, to 5,246 thousand tonnes in the year ended December 31, 2015 from 7,777 thousand tonnes in the year ended December 31, 2014. The decrease in sales volumes of coking coal in 2015 was mainly caused by decreased sales from Southern Kuzbass Coal Company.

The volume of coking coal sold to third parties decreased both at Yakutugol and Southern Kuzbass Coal Company. Yakutugol s coking coal sales volumes decreased by 825 thousand tonnes, or 15.5%, to 4,515 thousand tonnes in the year ended December 31, 2015 from 5,340 thousand tonnes in the year ended December 31, 2014. Southern Kuzbass Coal Company s coking coal sales volumes decreased by 1,693 thousand tonnes, or 70.4%, to 710 thousand tonnes in the year ended December 31, 2015 from 2,403 thousand tonnes in the year ended December 31, 2014 due to suspension of coal extraction at Olzherasskaya-Novaya Underground caused by high concentration of toxic gases.

Coke sales to third parties increased by RUB 1,002 million, or 11.9%, to RUB 9,429 million in the year ended December 31, 2015 from RUB 8,427 million in the year ended December 31, 2014, as a result of an increase in sales prices of RUB 2,853 million that was offset by a decrease in sales volumes of RUB 1,851 million. Average domestic coke price in 2015 was 10,892 rubles per tonne (including VAT, FCA basis), 56% higher than the average price in 2014, according to Metal-Courier. Price growth in the domestic coke market was due to depreciation of the ruble, higher coking coal prices and strong demand from Ukraine.

Coke supplied to the steel segment increased by RUB 6,510 million, or 51.2%, to RUB 19,234 million in the year ended December 31, 2015 from RUB 12,724 million in the year ended December 31, 2014. The increase was due to an increase in sales prices of RUB 6,733 million that was partially offset by a decrease in sales volumes of RUB 223 million. Coke sales volumes from Mechel Coke to Chelyabinsk Metallurgical Plant decreased by 45 thousand tonnes, or 2.3%, from 1,952 thousand tonnes in the year ended December 31, 2014 to 1,907 thousand tonnes in the year ended December 31, 2015.

Chemical products sales to third parties decreased by RUB 94 million, or 3.9%, to RUB 2,327 million in the year ended December 31, 2015 from RUB 2,422 million in the year ended December 31, 2014, mainly as a result of a decrease in sales volumes.

Anthracite and PCI sales to third parties increased by RUB 2,578 million, or 11.5%, to RUB 24,990 million in the year ended December 31, 2015 from RUB 22,412 million in the year ended December 31, 2014, as a result of an increase in sales prices of RUB 6,748 million that was partially offset by a decrease in sales volumes of RUB 4,169 million. The growth of prices denominated in Russian rubles for anthracite and PCI was due to depreciation of the ruble. In 2015, the contract price for metallurgical coal decreased by 28.3% from $99 per tonne in January 2015 to $71 per tonne in December 2015.

Steam coal sales to third parties increased by RUB 2,899 million, or 66.8%, to RUB 7,236 million in the year ended December 31, 2015 from RUB 4,337 million in the year ended December 31, 2014, as a result of an increase in sales volumes of RUB 2,119 million and an increase in sales prices of RUB 779 million. The growth of prices denominated in Russian rubles for steam coal was due to depreciation of the ruble. In 2015, steam coal market was still in oversupply, despite producers efforts to cut production. Chinese power generation and consumption growth has slowed significantly in 2015. The average price in 2015 was $56 per tonne, 25% lower than the average price in 2014, according to Platts.

Steam coal supplied to the power segment decreased by RUB 279 million, or 36.8%, to RUB 479 million in the year ended December 31, 2015 from RUB 758 million in the year ended December 31, 2014, as a result of a decrease in sales volumes. Sales of steam coal to power segment companies decreased by 356 thousand tonnes, or 37.9%, from

937 thousand tonnes in the year ended December 31, 2014 to 582 thousand tonnes in the year ended December 31, 2015 due to steam coal replacement by middlings.

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Sales of iron ore to third parties decreased by RUB 2,167 million, or 54%, to RUB 1,844 million in the year ended December 31, 2015 from RUB 4,011 million in the year ended December 31, 2014, as a result of a decrease in sales volumes of RUB 2,333 million that was partially offset by an increase in sales prices of RUB 166 million. Price growth for iron ore was due to depreciation of the ruble. In 2015, new iron ore capacity came on stream which together with a reduction of steel production in China has led to lower prices. Iron ore spot price declined from $68 per dry metric tonne (62% Fe, CFR China) in January to $40 per dry metric tonne in December, according to Platts. The average spot price in 2015 was $56 per dry metric tonne which was 42% lower than the average price in 2014, according to Platts.

Supplies of iron ore to the steel segment increased by RUB 250 million, or 4.5%, to RUB 5,843 million in the year ended December 31, 2015 from RUB 5,593 million in the year ended December 31, 2014, as a result of a RUB 1,070 million increase in sales volumes that was partially offset by a RUB 820 million decrease in sales prices. Sales volumes increased due to the group strategy of redirection of iron ore sales volumes from third parties to group iron ore consumers. The share of iron ore consumed at Chelyabinsk Metallurgical Plant and produced by Korshunov Mining Plant increased from 41.2% in the year ended December 31, 2014 to 52.5% in the year ended December 31, 2015.

Excluding intersegment sales, export sales were stable at 74.1% of mining segment sales in the year ended December 31, 2015, compared to 73.9% in the year ended December 31, 2014.

Steel segment

Our steel segment revenues increased by RUB 6,137 million, or 4.1%, to RUB 153,004 million in the year ended December 31, 2015 from RUB 146,867 million in the year ended December 31, 2014, mainly due to increase in sales prices. The decrease in third-party sales volumes was due to the weakened demand from Russian and European construction, engineering and transport sectors and the decline in purchases and resale of products from the former Estar metallurgical plants in 2015. In 2014, Russian rolled steel consumption was at a level of 45.5 million tonnes, in 2015 it declined by 8.7% and amounted to 41.5 million tonnes, according to Metal Expert.

Semi-finished products sales increased by RUB 2,193 million, or 77.4%, to RUB 5,027 million in the year ended December 31, 2015 from RUB 2,834 million in the year ended December 31, 2014, as a result of an increase of RUB 1,045 million in sales prices and an increase of RUB 1,148 million in sales volumes. In 2015, sales prices denominated in Russian rubles increased due to depreciation of the ruble: annual average price for billets (including VAT, FCA basis) was 19,403 rubles per tonne, 18% higher than the average price in 2014. Whereas in 2015 U.S. dollar-denominated prices declined as a result of decreased oil and scrap prices, low demand and increased competition on the background of China s exports growth, according to Metal-Courier. The increase in third-party sales volumes was due to recovery of demand in the domestic market.

Other long products sales increased by RUB 1,836 million, or 7.0%, to RUB 28,152 million in the year ended December 31, 2015 from RUB 26,316 million in the year ended December 31, 2014, as a result of an increase of RUB 5,403 million in sales prices that was partially offset by a decrease of RUB 3,567 million in sales volumes. The increase in sales prices was mainly due to depreciation of the ruble and, consequently, higher prices for steel-making raw materials (iron ore, coke, coking coal, etc.). Sales volumes decreased due to the decrease in sales volumes of products purchased from the former Estar metallurgical plants and low demand in the Russian market (reduction in the volume of constructions).

Other flat products sales increased by RUB 3,782 million, or 33.9%, to RUB 14,926 million in the year ended December 31, 2015 from RUB 11,144 million in the year ended December 31, 2014, as a result of an increase of RUB

2,660 million in sales prices and an increase of RUB 1,122 million in sales volumes. The increase in ruble-denominated sales prices was driven by depreciation of the ruble against the U.S. dollar: annual average price for flat steel products (including VAT, FCA basis) was 35,892 rubles per tonne, 12% higher than in

2014. Whereas annual average price for hot-rolled coil (Russia exports, FOB Black Sea) in U.S. dollars decreased by 35% to $345 per tonne in the year ended December 31, 2015 from $530 per tonne in the year ended December 31, 2014, according to Metal Expert. The sales volume increased due to the growth in market share and strengthening of consumer demand in the Russian market.

Wire sales increased by RUB 593 million, or 4.0%, to RUB 15,561 million in the year ended December 31, 2015 from RUB 14,968 million in the year ended December 31, 2014, as a result of an increase of RUB 1,883 million in sales prices that was partially offset by a decrease of RUB 1,290 million in sales volumes. The increase in sales prices was driven by the increase in the prices of wire rod used as the main input for wire production, as well as by depreciation of the ruble against the U.S. dollar. Sales volumes decreased due to the weakened demand in Russia and Europe.

Rebar sales increased by RUB 442 million, or 1.1%, to RUB 39,980 million in the year ended December 31, 2015 from RUB 39,538 million in the year ended December 31, 2014, as a result of an increase of RUB 2,405 million in sales prices that was offset by a decrease of RUB 1,963 million in sales volumes. In 2015, the Russian domestic price and prices in the CIS region for rebar increased due to the ruble depreciation. Sales volumes decreased due to lower demand in Russian construction sector.

Steel pipes sales decreased by RUB 83 million, or 2.4%, to RUB 3,308 million in the year ended December 31, 2015 from RUB 3,391 million in the year ended December 31, 2014, as a result of a decrease of RUB 781 million in sales volumes that was offset by an increase of RUB 698 million in sales prices. The price increased due to depreciation of the ruble. The sales volume decreased due to reduction of sales volume of products purchased from the former Estar metallurgical plants and lower demand in the Russian market.

Pig iron sales decreased by RUB 1,964 million, or 60.4%, to RUB 1,287 million in the year ended December 31, 2015 from RUB 3,251 million in the year ended December 31, 2014, as a result of an increase of RUB 175 million in sales prices and a decrease of RUB 2,139 million in sales volumes. The decrease in sales volumes was due to the increase in consumption within our steel segment.

Stampings sales decreased by RUB 503 million, or 6.8%, to RUB 6,918 million in the year ended December 31, 2015 from RUB 7,421 million in the year ended December 31, 2014, as a result of an increase of RUB 967 million in sales prices that was offset by a decrease of RUB 1,470 million in sales volumes. The increase in sales prices was driven by the increase in domestic prices during 2015. The decrease in sales volumes was due to lower demand from the key consuming industries (engineering and transport industries).

Ferrosilicon sales increased by RUB 815 million, or 30.0%, to RUB 3,528 million in the year ended December 31, 2015 from RUB 2,713 million in the year ended December 31, 2014, as a result of an increase of RUB 1,172 million in sales prices that was partially offset by a decrease of RUB 357 million in sales volumes. The increase in sales prices was driven by depreciation of the ruble against the U.S. dollar. The decrease in sales volumes was due to the increased competition from the market s participants.

Sales of non-core products and services slightly decreased by RUB 592 million, or 9.1%, to RUB 5,929 million in the year ended December 31, 2015 from RUB 6,521 million in the year ended December 31, 2014.

Excluding intersegment sales, export sales were 17.7% of steel segment sales in the year ended December 31, 2015, compared to 17.8% in the year ended December 31, 2014.

Power segment

Our power segment revenues increased by RUB 1,913 million, or 4.8%, to RUB 41,467 million in the year ended December 31, 2015 from RUB 39,554 million in the year ended December 31, 2014.

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Electricity sales to third parties increased by RUB 896 million, or 3.8%, to RUB 24,524 million in the year ended December 31, 2015 from RUB 23,628 million in the year ended December 31, 2014, as a result of an increase of RUB 616 million in sales prices and an increase of RUB 280 million in sales volumes.

Other revenue, which consists mostly of heat energy, decreased by RUB 243 million, or 11.1%, to RUB 1,952 million in the year ended December 31, 2015 from RUB 2,195 million in the year ended December 31, 2014, due to decrease in sales tariffs and sales volumes.

Intersegment sales increased by RUB 1,259 million, or 9.2%, to RUB 14,990 million in the year ended December 31, 2015 from RUB 13,731 million in the year ended December 31, 2014, mainly as a result of an increase in electricity sales to our steel segment by 16.0%.

Cost of goods sold and gross profit

The consolidated cost of goods sold was 59.8% of consolidated revenues in the year ended December 31, 2015, as compared to 62.7% of consolidated revenues in the year ended December 31, 2014, resulting in an increase in consolidated gross profit to 40.2% in the year ended December 31, 2015 from 37.3% for the year ended December 31, 2014. Cost of goods sold primarily consists of costs relating to raw materials (including products purchased for resale), direct payroll, depreciation and energy. The table below sets forth cost of goods sold and gross profit by segment for the years ended December 31, 2015 and 2014, including as a percentage of segment revenues.

Cost of Goods Sold and Gross Profit by Segment	Year Ended December 31, 2015 Amount	% of Segment Revenues	Year Ended December 31, 2014 Amount	% of Segment Revenues
	(In millions of Russian rubles, except for percentages)			
Mining segment				
Cost of goods sold	51,280	47.2%	51,435	51.1%
Gross profit	57,442	52.8%	49,123	48.9%
Steel segment				
Cost of goods sold	119,610	78.2%	115,485	78.6%
Gross profit	33,394	21.8%	31,382	21.4%
Power segment				
Cost of goods sold	30,178	72.8%	29,215	73.9%
Gross profit	11,289	27.2%	10,339	26.1%

Mining segment

Mining segment cost of goods sold decreased by RUB 155 million, or 0.3%, to RUB 51,280 million in the year ended December 31, 2015 from RUB 51,435 million in the year ended December 31, 2014. The gross profit percentage increased to 52.8% in the year ended December 31, 2015 compared to 48.9% in the year ended December 31, 2014, mainly due to the increase in selling prices denominated in rubles caused by the depreciation of the ruble.

Coal production cash costs per tonne (see Cash Costs per Tonne Measure) at Southern Kuzbass Coal Company increased by RUB 263 per tonne, or 22.0%, from RUB 1,197 in the year ended December 31, 2014 to RUB 1,460 in the year ended December 31, 2015, mainly due to the increase of purchasing prices caused by the depreciation of the ruble.

Production cash costs of coal at Yakutugol decreased by RUB 97 per tonne, or 10.1%, from RUB 957 in the year ended December 31, 2014 to RUB 860 in the year ended December 31, 2015, mainly due to cost cut.

Coke production cash costs increased by 8.8% at Moscow Coke and Gas Plant and by 26.1% at Mechel Coke following the increase in coking coal concentrate purchase prices caused by the depreciation of the ruble.

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Production cash costs of iron ore increased by 10.5% due to the increase of share of fixed costs per tonne, resulting from a 15.4% decline in iron ore extraction in 2015 compared to 2014.

Steel segment

Steel segment cost of goods sold increased by RUB 4,125 million, or 3.6%, to RUB 119,610 million in the year ended December 31, 2015 from RUB 115,485 million in the year ended December 31, 2014. Steel segment cost of goods sold was 78.2% of the segment s revenues in the year ended December 31, 2015, as compared to 78.6% in the year ended December 31, 2014. The slight increase in gross profit from 21.4% to 21.8% is mainly explained by the increase in ruble sales prices caused by the depreciation of the ruble.

Power segment

Power segment cost of goods sold increased by RUB 963 million, or 3.3%, to RUB 30,178 million in the year ended December 31, 2015 from RUB 29,215 million in the year ended December 31, 2014. The power segment gross profit percentage increased to 27.2% in the year ended December 31, 2015 from 26.1% in the year ended December 31, 2014 due to sales price increase.

Cash Costs per Tonne Measure

In this document, we present cash costs per tonne for coal, coke and iron ore production for each significant production facility of our mining segment. Cash costs per tonne is a performance indicator that is not defined according to IFRS or U.S. GAAP. Cash costs per tonne includes various production costs, such as raw materials, auxiliary materials, wages and social taxes of production personnel, electricity, gas and fuel costs, repairs and maintenance of production equipment, costs of mining works, mineral extraction tax and royalty payments, but excludes non-cash items such as depreciation, depletion and write-down of inventories to their net realizable value. We use this indicator to evaluate the performance of individual production subsidiaries and their respective ability to generate cash. Cash costs per tonne is a widely used performance indicator in the mining industry to evaluate the cost-effectiveness of mining operations. We believe that investors use this indicator in addition to the financial information prepared in accordance with IFRS to evaluate the performance of our companies. Consequently, this information must be considered supplementary and should not be regarded as a substitute for the performance indicators prepared in accordance with IFRS.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2015 is presented below:

	In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Coal Southern Kuzbass Coal Company sales to third parties	5,012	1.5	7,317
Coal Southern Kuzbass Coal Company intersegment sales	1,674	1.5	2,444
Coal Yakutugol sales to third parties	7,540	0.9	6,483

Coal Yakutugol intersegment sales		0.9	
Coal Elgaugol sales to third parties	1,575	0.8	1,280
Coal Elgaugol intersegment sales	6	0.8	5
Iron ore Korshunov Mining Plant sales to third parties	489	2.0	983
Iron ore Korshunov Mining Plant intersegment sales	2,288	2.0	4,598
Coke Moscow Coke and Gas Plant sales to third parties[(1)]	715	7.4	5,268
Coke Moscow Coke and Gas Plant intersegment sales	3	7.4	20
Coke Mechel Coke sales to third parties[(2)]	270	6.0	1,612
Coke Mechel Coke intersegment sales	1,924	6.0	11,499

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	In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Depreciation			6,532
Depletion			1,685
Write-down of inventory to their net realizable value			6
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales			346
Costs of other products and services (coking products, washing services) and costs of other subsidiaries(3)			1,200
Total mining segment cost of sales			51,280

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 283, or 4%, at Moscow Coke and Gas Plant in the year ended December 31, 2015.
(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 767, or 13%, at Mechel Coke in the year ended December 31, 2015.
(3) Line Costs of other products and services was increased by the amount of by-products credits of RUB 840 million in the year ended December 31, 2015.

The reconciliation of mining segment production cash costs per tonne for the year ended December 31, 2014 is presented below:

	In Thousands of Tonnes	Cash Cost, In Thousands of Russian rubles per Tonne	In Millions of Russian rubles
Coal Southern Kuzbass Coal Company sales to third parties	8,029	1.2	9,611
Coal Southern Kuzbass Coal Company intersegment sales	1,490	1.2	1,783
Coal Yakutugol sales to third parties	8,338	1.0	7,979
Coal Yakutugol intersegment sales		1.0	
Coal Elgaugol sales to third parties	668	0.8	560
Coal Elgaugol intersegment sales		0.8	
Iron ore Korshunov Mining Plant sales to third parties	1,169	1.8	2,125
Iron ore Korshunov Mining Plant intersegment sales	1,920	1.8	3,492
Coke Moscow Coke and Gas Plant sales to third parties(1)	775	6.8	5,248
Coke Moscow Coke and Gas Plant intersegment sales		6.8	

Coke	Mechel Coke	sales to third parties[2]	487	4.7	2,297
Coke	Mechel Coke	intersegment sales	1,961	4.7	9,249
Depreciation					5,911
Depletion					1,787
Write-down of inventory to their net realizable value					166
Cost of coal produced by third companies and re-sold by our trading subsidiaries, including intersegment sales					439
Costs of other products and services (coking products, washing services) and costs of other subsidiaries[3]					788
Total mining segment cost of sales					51,435

(1) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 417, or 6%, at Moscow Coke and Gas Plant in the year ended December 31, 2014.

(2) Cash costs per tonne for coke was reduced by by-products credits. The amount of by-products credits in the total cash costs per tonne was RUB 695, or 15%, at Mechel Coke in the year ended December 31, 2014.

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(3) Line Costs of other products and services was increased by the amount of by-products credits of RUB 834 million in the year ended December 31, 2014.

Selling, distribution and operating expenses

Selling, distribution and operating expenses decreased by RUB 12,309 million, or 13.7%, to RUB 77,739 million in the year ended December 31, 2015 from RUB 90,048 million in the year ended December 31, 2014, as a result of a decrease in impairment of goodwill and other non-current assets in the steel segment, selling and distribution expenses in the mining segment and allowance for doubtful accounts in the mining, steel and power segments in the year ended December 31, 2015. As a percentage of consolidated revenues, selling, distribution and operating expenses decreased to 30.7% in the year ended December 31, 2015 from 36.9% in the year ended December 31, 2014. Our selling, distribution and operating expenses consist primarily of selling and distribution expenses, taxes other than income taxes, loss on write-off of property, plant and equipment, allowance for doubtful accounts, allowance for amounts due from related parties, impairment of goodwill and other non-current assets and general, administrative and other operating expenses. The table below sets forth these costs by segment for the years ended December 31, 2015 and 2014, including as a percentage of segment revenues.

	Year Ended December 31, 2015		Year Ended December 31, 2014	
Selling, Distribution and Operating Expenses by Segment	**Amount**	**% of Segment Revenues**	**Amount**	**% of Segment Revenues**
	(In millions of Russian rubles, except for percentages)			
Mining segment				
Selling and distribution expenses	28,588	26.3%	33,583	33.4%
Loss on write-off of property, plant and equipment	199	0.2%	309	0.3%
Impairment of goodwill and other non-current assets		0.0%	(19)	(0.0%)
Allowance for doubtful accounts	204	0.2%	855	0.9%
Taxes other than income taxes	3,706	3.4%	4,878	4.9%
Allowance for amounts due from related parties	43	0.0%	126	0.1%
Administrative and other operating expenses	8,872	8.2%	8,001	7.9%
Other operating income	(63)	(0.1%)	(329)	(0.3%)
Total	41,548	38.2%	47,404	47.1%
Steel segment				
Selling and distribution expenses	13,736	9.0%	13,394	9.1%
Loss on write-off of property, plant and equipment	492	0.3%	242	0.2%
Impairment of goodwill and other non-current assets	16	0.0%	8,015	5.5%
Allowance for doubtful accounts	948	0.6%	2,290	1.6%
Taxes other than income taxes	2,046	1.3%	1,507	1.0%
Allowance for amounts due from related parties		0.0%		0.0%
Administrative and other operating expenses	7,825	5.1%	7,743	5.3%
Other operating income	(123)	(0.1%)	(459)	(0.3%)
Total	24,937	16.3%	32,729	22.3%

Power segment				
Selling and distribution expenses	8,792	21.2%	8,685	22.0%
Loss on write-off of property, plant and equipment		0.0%	110	0.3%
Impairment of goodwill and other non-current assets	1,444	3.5%		0.0%
Allowance for doubtful accounts	312	0.8%	526	1.3%
Taxes other than income taxes	103	0.2%	86	0.2%
Allowance for amounts due from related parties		0.0%		0.0%
Administrative and other operating expenses	603	1.5%	571	1.4%
Other operating income	(0)	(0.0%)	(63)	(0.2%)
Total	11,254	27.1%	9,915	25.1%

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Mining segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses decreased by RUB 4,994 million, or 14.9%, to RUB 28,558 million in the year ended December 31, 2015 from RUB 33,582 million in the year ended December 31, 2014, mainly due to the decrease in segment sales volumes by 19.9%. As a percentage of mining segment revenues, selling and distribution expenses decreased from 33.4% to 26.3% due to an increase of 35.6% in sales revenue from sales to steel segment and simultaneous decrease of 14.9% in selling and distribution expenses.

Taxes other than income tax decreased by RUB 1,172 million, or 24.0%, to RUB 3,706 million in the year ended December 31, 2015 from RUB 4,878 million in the year ended December 31, 2014. The decrease was due to several accruals for taxes other than income tax made in the financial statements for the year ended December 31, 2014, namely additional tax liabilities for previous years of RUB 548 million at Tomusinsky Open Pit. There are no similar accruals in 2015. Tax penalties imposed by the tax authorities due to delays in tax payments decreased by RUB 515 million from RUB 697 million in the year ended December 31, 2014 to RUB 181 million in the year ended December 31, 2015.

Allowance for doubtful accounts decreased by RUB 651 million to RUB 204 million in the year ended December 31, 2015 from RUB 855 million in the year ended December 31, 2014, due to the decrease in outstanding accounts receivable at the end of 2015. In accordance with our accounting policy, we apply specific rates to overdue accounts receivable depending on the history of cash collections and events and conditions at the reporting date.

Provisions for amounts due from related parties decreased by RUB 83 million to RUB 43 million in the year ended December 31, 2015 from RUB 126 million in the year ended December 31, 2014 due to repayments. See note 14 to the consolidated financial statements.

Loss on write-off of property, plant and equipment decreased by RUB 110 million, or 35.4%, to RUB 199 million in the year ended December 31, 2015 from RUB 309 million in the year ended December 31, 2014, due to the decrease in the number of property, plant and equipment objects that are not planned for further use in production process at Yakutugol and Southern Kuzbass Coal Company.

General, administrative and other expenses consist of payroll and payroll taxes, depreciation, rent and maintenance, legal and consulting expenses, office overheads and other expenses. These expenses increased by RUB 1,135 million, or 14.8%, to RUB 8,807 million in the year ended December 31, 2015 from RUB 7,672 million in the year ended December 31, 2014, mainly as a result of the depreciation of the Russian ruble: salaries and related social taxes increased by RUB 690 million, or 15.0%, to RUB 5,299 million in the year ended December 31, 2015 from RUB 4,609 million in the year ended December 31, 2014; legal and consulting fees and insurance services increased by 11.2% to RUB 278 million in the year ended December 31, 2015 from RUB 250 million in the year ended December 31, 2014; and other administrative and operating expenses increased by RUB 417 million, or 14.6%, to RUB 3,230 million in the year ended December 31, 2015 from RUB 2,813 million in the year ended December 31, 2014.

Steel segment

Selling and distribution expenses consisted almost entirely of transportation expenses related to our selling activities. Such expenses increased by RUB 343 million, or 2.6%, to RUB 13,736 million in the year ended December 31, 2015 from RUB 13,393 million in the year ended December 31, 2014, mainly due to the increase in railway tariffs by 10.0% that was partially offset by the decrease in sales volume. As a percentage of steel segment revenues, selling and distribution expenses decreased to 9.0% in the year ended December 31, 2015 from 9.1% in the year ended December 31, 2014.

Taxes other than income tax increased by RUB 539 million, or 35.8%, to RUB 2,044 million in the year ended December 31, 2015 from RUB 1,505 million in the year ended December 31, 2014. As a percentage of segment revenues, these taxes increased from 1.0% to 1.3%. Property and land taxes increased by RUB 193 million, or 17.7%, to RUB 1,282 million in the year ended December 31, 2015 from RUB 1,089 million in the year ended December 31, 2014, mainly due to revision of the cadastral valuation of land.

Allowance for doubtful accounts decreased by RUB 1,342 million, or 58.6%, to RUB 948 million in the year ended December 31, 2015 from RUB 2,290 million in the year ended December 31, 2014, mainly due to the fact that main provision in relation to certain of the former Estar metallurgical plants had entered into bankruptcy proceedings was recognized in 2014 and in previous years.

Loss on write-off of property, plant and equipment increased by RUB 250 million, or 103.3%, to RUB 492 million in the year ended December 31, 2015 from RUB 242 million in the year ended December 31, 2014, due to the increase in the number of idled property, plant and equipment written off by our steel production subsidiaries.

Impairment of goodwill and other non-current assets decreased by RUB 7,999 million or 99.8%. In 2014, we recognized impairment of property, plant and equipment and construction in progress in relation to Izhstal of RUB 6,669 million, Donetsk Electrometallurgical Plant of RUB 1,283 million and Mechel Service Romania of RUB 63 million due to the lack of positive prospects for the recovery of the European market. In 2015, we recognized reversal of impairment of other non-current assets in relation to Izhstal of RUB 5,967 million and recognized additional impairment of other non-current assets in relation to Mechel Materials of RUB 5,983 million.

General, administrative and other expenses increased by RUB 418 million, or 5.7%, to RUB 7,702 million in the year ended December 31, 2015 from RUB 7,284 million in the year ended December 31, 2014. A percentage of segment revenues remained at the level of 5.0% in the years ended December 31, 2015 and 2014. Payroll and related social taxes slightly increased by RUB 144 million, or 4.0%, to RUB 3,750 million in the year ended December 31, 2015 from RUB 3,606 million in the year ended December 31, 2014. Social expenses decreased by RUB 43 million, or 16.8%, to RUB 215 million in the year ended December 31, 2015 from RUB 258 million in the year ended December 31, 2014, due to the cost-cutting measures implemented by our management. Rent and maintenance, business travel expenses, bank charges and office expenses increased by RUB 84 million, or 9.6%, to RUB 959 million in the year ended December 31, 2015 from RUB 875 million in the year ended December 31, 2014. Professional expenses, which include auditing, accounting, legal and engineering fees and insurance services decreased by RUB 122 million, or 27.9%, to RUB 315 million in the year ended December 31, 2015 from RUB 437 million in the year ended December 31, 2014, due to the cost-cutting measures implemented by our management and the decreased involvement of external consultants in 2015. Fines and penalties expenses on breach of trading contracts increased by RUB 317 million, or 149.4%, to RUB 529 million in the year ended December 31, 2015 from RUB 212 million in the year ended December 31, 2014. Other administrative and operating expenses increased by RUB 38 million, or 2.0%, to RUB 1,934 million in the year ended December 31, 2015 from RUB 1,896 million in the year ended December 31, 2014.

Power segment

In 2015, selling and distribution expenses consisted almost entirely of electricity transmission costs incurred by our Kuzbass Power Sales Company for the usage of the power grid through which electricity is distributed to end consumers. These expenses increased by RUB 108 million, or 1.2%, to RUB 8,792 million in the year ended December 31, 2015 from RUB 8,685 million in the year ended December 31, 2014.

Taxes other than income tax increased by RUB 16 million, or 18.8%, to RUB 103 million in the year ended December 31, 2015 from RUB 86 million in the year ended December 31, 2014, due to the increase in property tax accrued by Southern Kuzbass Power Plant.

Allowance for doubtful accounts decreased by RUB 214 million to RUB 312 million in the year ended December 31, 2015 from RUB 526 million in the year ended December 31, 2014, mainly due to the decrease in allowance for trade receivables from the former Estar metallurgical plants.

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In 2015, as a result of the goodwill impairment test we recognized the impairment loss of Southern Kuzbass Power Plant in the amount of RUB 1,444 million. No impairment loss was recognized in 2014. See note 19 to the consolidated financial statements.

General, administrative and other expenses increased by RUB 32 million, or 5.6%, to RUB 603 million in the year ended December 31, 2015 from RUB 571 million in the year ended December 31, 2014, due to reversal of provisions for legal claims and reduction in personnel expenses as a result of power plants organizational optimization.

Operating profit

Operating profit increased by RUB 23,181 million, or 2,613%, to RUB 24,068 million in the year ended December 31, 2015 from RUB 887 million in the year ended December 31, 2014. Operating profit as a percentage of consolidated revenues was 9.5% in the year ended December 31, 2015 and 0.4% in the year ended December 31, 2014, mainly due to an increase in consolidated gross profit to 40.2% in the year ended December 31, 2015 from 37.3% in the year ended December 31, 2014 and a decrease in losses from allowance for amounts due from related parties and impairment of goodwill and other non-current assets as explained above.

The table below sets out operating profit (loss) by segment, including as a percentage of segment revenues.

Operating Profit (Loss) by Segment	**Year Ended December 31, 2015**		**Year Ended December 31, 2014**	
	Amount	**% of Segment Revenues**	**Amount**	**% of Segment Revenues**
	(In millions of Russian rubles, except for percentages)			
Mining segment	15,895	14.6%	1,718	1.7%
Steel segment	8,456	5.5%	(1,347)	(0.9%)
Power segment	35	0.1%	424	1.1%
Elimination of intersegment unrealized (profit) loss(1)	(318)		91	
Consolidated operating profit	24,068		887	

(1) Our management evaluates the performance of our segments before the elimination of unrealized profit in inventory balances of segments that was generated by the segments but not recognized as profit in our consolidated financial statements until the sale of such inventories to third parties. Therefore, we present our segments before such elimination, and such elimination is presented separately. The change in intersegment unrealized profit adjustment in the year ended December 31, 2015 as compared to the year ended December 31, 2014 was due to the increase in gross profit of our mining segment in 2015.

Mining segment

Mining segment operating income increased by RUB 14,177 million, or 825.1%, to RUB 15,895 million in the year ended December 31, 2015 from RUB 1,718 million in the year ended December 31, 2014. The operating profit percentage increased to 14.6% in the year ended December 31, 2015 from 1.7% in the year ended December 31, 2014, mainly due to the increase in selling prices denominated in rubles caused by the depreciation of the ruble.

Steel segment

Steel segment operating results changed by RUB 9,803 million, or 727.8%, to RUB 8,456 million income in the year ended December 31, 2015 from RUB 1,347 million loss in the year ended December 31, 2014. The operating profit percentage changed to positive 5.5% in the year ended December 31, 2015 from negative 0.9% in the year ended December 31, 2014, mainly due to the factors that affected operating income in 2014, such as the recognition of losses from the impairment of non-current assets of Izhstal and Donetsk Electrometallurgical Plant and a provision on trade and other balances due from the former Estar metallurgical plants.

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Power segment

Power segment operating income decreased by RUB 389 million, or 91.8%, to RUB 35 million in the year ended December 31, 2015 from RUB 424 million in the year ended December 31, 2014. The operating profit percentage decreased to 0.1% in the year ended December 31, 2015 from 1.1% in the year ended December 31, 2014, mainly due to the optimization of expenses and the increase in sales tariffs.

Other income and expense, net

Other income and expense, net consists of share of profit of an associate, finance income, finance costs, other income and other expenses and foreign exchange loss. The table below sets forth these costs for the years ended December 31, 2015 and 2014, including as a percentage of revenues.

	Year Ended December 31, 2015		Year Ended December 31, 2014	
Other Income and Expense, Net	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of Russian rubles, except for percentages)			
Finance income	183	0.1%	107	0.0%
Finance costs	(60,453)	(23.9)%	(28,110)	(11.5)%
Foreign exchange loss	(71,106)	(28.0)%	(103,176)	(42.3)%
Share of profit of an associate		0.0%	7	0.0%
Other income	526	0.2%	684	0.3%
Other expenses	(347)	(0.1)%	(1,486)	(0.6)%
Total	(131,196)	(51.8)%	(131,974)	(54.1)%

Finance income increased by RUB 76 million, or 71%, to RUB 183 million in the year ended December 31, 2015 from RUB 107 million in the year ended December 31, 2014, mainly due to fines and penalties on overdue accounts receivable and an increase in exchange rates.

Finance costs increased by RUB 32,342 million, or 115.1%, to RUB 60,453 million in the year ended December 31, 2015 from RUB 28,110 million in the year ended December 31, 2014, due to the increase in the weighted average interest rate from 12.0% in the year ended December 31, 2014 to 15.0% in the year ended December 31, 2015 and the increase of fines and penalties on overdue borrowings and interest payable by RUB 19,288 million.

Foreign exchange loss decreased by RUB 32,070 million, or 31.2%, to RUB 71,106 million in the year ended December 31, 2015 from RUB 103,176 million in the year ended December 31, 2014, mainly due to a decline of volatility of the ruble exchange rate in the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Share of profit of an associate decreased by RUB 7 million to RUB nil in the year ended December 31, 2015 from RUB 7 million in the year ended December 31, 2014. Income earned in 2014 related to our share of income from our equity investment of BWS Bewehrungsstahl GmbH (see note 8 to the consolidated financial statements).

Other income decreased by RUB 158 million, or 23.1%, to RUB 526 million in the year ended December 31, 2015 from RUB 684 million in the year ended December 31, 2014 and other expenses decreased by RUB 1,139 million, or 76.6%, to RUB 347 million in the year ended December 31, 2015 from RUB 1,486 million in the year ended December 31, 2014, mainly due to a loss related to the failure of a counterparty to a securities repurchase agreement to return certain securities to our group.

Income tax expense (benefit)

Income tax expense changed by RUB 17,144 million, or 194.3%, to RUB 8,322 million expense in the year ended December 31, 2015 from RUB 8,822 million benefit in the year ended December 31, 2014, due to an overall increase in operating income. Our effective tax rate changed to positive 7.8% from negative 6.7%, due to the increase in loss from continuing operations before income tax.

Net income (loss) from discontinued operations

Net income (loss) from discontinued operations changed by RUB 12,524 million, or 107.0%, to RUB 822 million income in the year ended December 31, 2015 from RUB 11,702 million loss in the year ended December 31, 2014, mainly due to the recognition of Bluestone as held for sale and recognition of corresponding impairment loss in 2014.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests changed by RUB 1,798 million, or 142.4%, to a RUB 535 million income in the year ended December 31, 2015 from a RUB 1,263 million loss in the year ended December 31, 2014. The non-controlling interest in the loss of our subsidiaries in the year ended December 31, 2015 was RUB 927 million for Southern Kuzbass Coal Company and RUB 104 million for Izhstal and was partially offset by the non-controlling interest in the income of Korshunov Mining Plant of RUB 113 million, Chelyabinsk Metallurgical Plant of RUB 132 million and Kuzbass Power Sales Company of RUB 155 million.

Net loss attributable to equity holders of the parent

Net loss attributable to our equity holders decreased by RUB 17,541 million, or 13.2%, to RUB 115,163 million in the year ended December 31, 2015 from RUB 132,704 million in the year ended December 31, 2014, due to the decrease of foreign exchange losses, losses of discontinued operations and partially offset by the increase in finance costs.

Liquidity and Capital Resources

Capital requirements

We expect that our principal capital requirements in the near future will be for financing the repayment of maturing debt and regular maintenance capital expenditures.

Our business is heavily dependent on machinery for the production of steel and steel products, as well as investments in our mining operations. Investments to maintain and expand production facilities are, accordingly, an important priority and have a significant effect on our cash flows and future results of operations. We intend to focus our capital spending on the implementation of projects that we view as key to carrying out our business strategy and improve free cash flow. See Item 4. Information on the Company Capital Investment Program for the objectives of our capital investment program and its details. Over the next three years, i.e., 2016-2018, we expect our capital expenditures on our metals production facilities to total approximately 8,292 million rubles, approximately 65% of which will be in 2016-2017, and approximately 35% in 2018. We intend to spend approximately 6,255 million rubles for the development of the Elga coal deposit during the period from 2016 to 2018. We intend to finance our capital investments with cash flow from operations and external long-term financing sources.

Our total outstanding debt as of December 31, 2015 and 2014 was RUB 495,982 million and RUB 395,864 million, respectively. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for information regarding the type of financial instruments, currency and interest rate structure.

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In 2015 and 2014, we paid dividends of RUB 4.1 million and RUB 4.1 million, respectively, all of which were paid on preferred shares. See Item 8. Financial Information Dividend Distribution Policy for a description of our dividend policy.

Capital resources

Our strategy has shifted from growing our business through acquisition and expansion opportunities to extracting the maximum value from our existing core assets. We now intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability. We may also consider further selective disposal of assets.

Historically, our major sources of cash have been cash generated from operations, bank loans and public debt, and we expect these sources will continue to be our principal sources of cash in the future. For financing of our capital investment program we have also relied on financings secured by foreign export credit agency guarantees.

The table below summarizes our cash flows for the periods indicated.

	Year Ended December 31,	
	2015	2014
	(In millions of Russian rubles)	
Net cash provided by operating activities	9,982	28,072
Net cash used in investing activities	(10,062)	(17,739)
Net cash used in financing activities	(704)	(16,020)

Net cash provided by operating activities was RUB 9,982 million in the year ended December 31, 2015 as compared to net cash provided by operating activities of RUB 28,072 million in the year ended December 31, 2014. The operating cash inflows were derived from payments received from sales of our mining, steel and power products, reduced by cash disbursements for direct labor, raw materials and parts, selling, distribution and operating expenses, interest expense and income taxes.

Net cash used in operating activities before changes in working capital items was RUB 43,229 million in the year ended December 31, 2015. Net operating cash outflow of discontinued operations amounted to RUB 136 million. Below we analyze major changes in working capital items which in the aggregate accounted for RUB 2,787 million in cash provided by operating activities, resulting in net cash provided by operating activities of RUB 9,982 million.

Working capital items accretive to operating cash flows:

- a decrease in inventories of RUB 1,873 million due to a significant decrease in finished goods of Mechel Carbon Singapore and Southern Kuzbass Coal Company as of December 31, 2015 as compared to December 31, 2014. The main reason for the change in the stock level was the decrease in production volumes in mining segment as a result of the decline of export sales;

- a decrease in accounts receivable of RUB 4,719 million primarily due to the decrease in sales of Mechel Carbon, Mechel Carbon Singapore, Urals Stampings Plant and Mechel Service; and

- a decrease in other current assets of RUB 997 million primarily due to a decrease in VAT and other taxes receivable of Yakutugol, Chelyabinsk Metallurgical Plant and Mecheltrans.

Working capital items reducing operating cash flows:

- a decrease in accrued taxes and other liabilities of RUB 1,465 million due to positive change in tax liabilities, primarily resulting from a release of tax liability related for the year ended December 31, 2015;

- a decrease in accounts payable of RUB 7,972 million;

a decrease in advances received of RUB 664 million of Chelyabinsk Metallurgical Plant, Mechel Service, Mechel Carbon, Donetsk Electrometallurgical Plant and Urals Stampings Plant; and

net change in balances with related parties of RUB 275 million.

Net cash used in operating activities before changes in working capital items was RUB 23,271 million in the year ended December 31, 2014. Net operating cash outflow of discontinued operations amounted to RUB 745 million. Below we analyze major changes in working capital items which in the aggregate accounted for RUB 22,995 million in cash provided by operating activities, resulting in net cash provided by operating activities of RUB 28,072 million.

Working capital items accretive to operating cash flows:

a decrease in inventories of RUB 14,565 million due to a significant decrease in finished goods and raw materials held in stock at the warehouses of Mechel Service Global, Mechel Carbon, Southern Kuzbass Coal Company and Chelyabinsk Metallurgical Plant as of December 31, 2014. The main reason for the change in the stock level was the decrease in production volumes across all our segments as a result of the continuation of weak demand in the European and Russian markets;

an increase in accrued taxes and other liabilities of RUB 8,771 million due to delays in payments;

a decrease in accounts receivable of RUB 2,089 million primarily due to the decrease in sales of Mechel Service, Korshunov Mining Plant, Mechel Carbon and Mechel Trading; and

an increase in advances received of RUB 62 million.

Working capital items reducing operating cash flows:

a decrease in other current assets of RUB 822 million primarily due to a decrease in VAT and other taxes receivable of Southern Kuzbass Coal Company and Mechel Service Global and repayment of accounts receivable to Romanian companies disposed of in 2013;

a decrease in accounts payable of RUB 1,640 million; and

net change in balances with related parties of RUB 29 million.

Net cash used in investing activities was RUB 10,062 million in the year ended December 31, 2015 as compared to net cash used in investing activities of RUB 17,739 million in the year ended December 31, 2014. Substantially all of the cash used in investing activities in the years ended December 31, 2015 and 2014 related to capital expenditures and the acquisition of businesses. Capital expenditures relating to purchases of property, plant and equipment, purchases of mineral licenses and interest paid, capitalized amounted to RUB 5,976 million and RUB 16,506 million in the years ended December 31, 2015 and 2014, respectively. Expenditures related to the acquisition of businesses and investments amounted to RUB 4,819 million and RUB 3,223 million in the years ended December 31, 2015 and 2014, respectively. Cash provided by investing activities related to disposal of businesses and investments in the amount of RUB 177 million in the year ended December 31, 2015 as compared to RUB 632 million in the year ended December 31, 2014.

Net cash used in financing activities was RUB 704 million in the year ended December 31, 2015 as compared to net cash used in financing activities of RUB 16,020 million in the year ended December 31, 2014. We received debt proceeds of RUB 13,875 million and repaid debt of RUB 11,896 million in the year ended December 31, 2015 as compared to received debt proceeds of RUB 64,469 million and repaid debt of RUB 77,761 million in the year ended December 31, 2014.

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Liquidity

We had cash and cash equivalents of RUB 3,079 million, RUB 3,983 million and RUB 8,979 million as of December 31, 2015, 2014 and January 1, 2014, respectively. Our cash and cash equivalents were held in rubles (20.6%, 23.3% and 8.1% as of December 31, 2015, 2014 and January 1, 2014, respectively), U.S. dollars (37.4%, 45.3% and 79.6% as of December 31, 2015, 2014 and January 1, 2014, respectively), euros (37.6%, 23.1% and 7.2% as of December 31, 2015, 2014 and January 1, 2014, respectively) and certain other currencies of the CIS and Eastern Europe.

The unused portion under the group s credit facilities as of December 31, 2015, 2014 and January 1, 2014 was RUB 409 million, RUB 1,879 million and RUB 9,191 million, respectively. As of December 31, 2015, 2014 and January 1, 2014, the group s credit facilities provided aggregated borrowing capacity of RUB 496,390 million (of which RUB 316,340 million is repayable during 2016 and RUB 175,743 million represented long-term debt that was reclassified as short-term liabilities as of that date because of covenant violations), RUB 397,743 million and RUB 301,520 million, respectively. The group s borrowings under these credit facilities (except for special-purpose borrowings such as pre-export facilities, Vnesheconombank s facilities as well as factoring and overdraft facilities) carried a weighted average interest rate of approximately 15.0%, 12.0% and 9.4% as of December 31, 2015, 2014 and January 1, 2014, respectively. See Restrictive Covenants for further information about our covenant violations.

The following table summarizes our liquidity as of December 31, 2015, 2014 and January 1, 2014.

Estimated Liquidity	**December 31, 2015**	**December 31, 2014**	**January 1, 2014**
	(In millions of Russian rubles)		
Cash and cash equivalents	3,079	3,983	8,979
Amounts available under credit facilities	409	1,879	9,191
Total estimated liquidity	3,488	5,862	18,170

Short-term debt (short-term borrowings and current portion of long-term debt) increased by RUB 105,156 million, or 27.2%, to RUB 491,674 million as of December 31, 2015 from RUB 386,518 million as of December 31, 2014, as a result of the weakening of the ruble against the U.S. dollar and the increase of accrued unpaid interest.

Long-term debt net of current portion decreased by RUB 5,038 million, or 53.9%, to RUB 4,308 million as of December 31, 2015 from RUB 9,346 million as of December 31, 2014. The decrease was primary attributable to the fact that significant part of long-term bonds are approaching maturity and were reclassified into short-term part as of December 31, 2015.

Our working capital remained negative and decreased by RUB 103,724 million, or 25.1%, to RUB 517,416 million as of December 31, 2015 from RUB 413,692 million as of December 31, 2014. The main reasons for the decrease in working capital were the ruble devaluation and the increase of accrued unpaid interest related to loans and finance lease contracts which increased the RUB amount of short-term debt by RUB 105,156 million.

Restructuring of financial indebtedness

In the first half of 2014, we experienced a shortage of liquidity and difficulties with refinancing of our debt; as a result, we failed to fulfill our payment obligations in connection with the servicing of the interest and the repayment of our indebtedness. Since 2014, we negotiate restructuring terms with our major lenders, such as Gazprombank, Sberbank and VTB Bank, and other lenders. As a result, in August, September and December 2015, we signed agreements with VTB Bank and Gazprombank contemplating, among other things, extension of the loan tenors, decrease in the interest rates, revision of the collateral requirements and dismissal of all court proceedings, all of which becomes effective upon fulfillment of all conditions precedent and conditions subsequent. During the period from December 2015 to April 2016, we signed agreements with Sberbank contemplating, among other things, extension of the loan tenors, decrease in the interest rates and dismissal of all court proceedings, all of which becomes effective upon fulfillment of all conditions precedent and conditions subsequent. See Debt Financings in 2016, Debt Financings in 2015, Description of Certain Indebtedness, Item 10. Additional Information Materi Contracts, Item 8. Financial Information Significant Changes and Item 8. Financial Information Litigation Debt litigation.

VTB Bank restructuring became effective in October 2015. Gazprombank restructuring became partially effective in the first quarter of 2016 after conversion of the U.S. dollar-denominated credit facilities into Russian rubles. Restructuring under all facilities with Gazprombank will become effective after obtainment of approval on suretyship provision by Mechel on our general shareholders meeting or we will need to renegotiate this requirement with the bank. Restructuring agreements with Sberbank came into effect upon signing, however failure to comply with certain conditions will lead to termination of these agreements. Such conditions include payment of 31.5 billion rubles on Southern Kuzbass Coal Company debt, as well as repayment of part of the overdue interest and lease payments to Sberbank and Sberbank Leasing AO in the total amount of 2.8 billion rubles. In April 2016, Southern Kuzbass Coal Company s debt was assigned from Sberbank to Gazprombank in the amount of 31.5 billion rubles ($423.1 million or 28.4 billion rubles at the CBR exchange rate on April 12, 2016 and 3.1 billion rubles). In April 2016, we signed option agreements with Gazprombank providing the bank with an option to acquire a 49% stake in the Elga coal complex for a total consideration of 34.3 billion rubles by June 30, 2016. Proceeds from this sale will be used for repayment of our debt to Gazprombank, Sberbank and Sberbank Leasing AO.

In September 2015, we restructured the debt on two series of Russian ruble bonds in an aggregate amount of 10.0 billion rubles. See Description of Certain Indebtedness Russian bonds for a description of the terms of restructuring.

During the period from December 2015 to May 2016, we signed settlement agreements with Sberbank Leasing AO which waived our previous defaults and restructured our future payment schedules. The settlement agreements will become effective upon approval at the court hearings which are ongoing.

We continue to negotiate financial restructuring with our Russian and international creditors and are focused on fulfillment of conditions upon which certain restructuring agreements shall come into effect.

Outlook for 2016

Our objective is to ensure that our group meets its liquidity requirements and payment obligations to creditors, continues capital expenditures, restructures and services its debt, and continues as a going concern. To accomplish that, we will continue to seek the restructuring of our existing indebtedness in order to alleviate the pressure on our cash flows. This will require aligning the servicing of the debt with operating cash flows by extending grace periods and maturities, converting foreign currency debt into rubles, reducing interest rates and amending the covenant requirements. We also intend to ask for state support as an additional source of funding or to reduce other borrowing costs.

We believe we will not be able to obtain significant new borrowings in the near future; however we may consider certain divestments and invite financial or strategic investors into our businesses in order to reduce the debt burden. We believe that cash generated from operations, subject to successful completion of debt restructuring, improved market conditions and reduced costs, as well as foreign currency gains, will be sufficient to meet our capital expenditures and debt service payments in 2016. Furthermore, we believe that we have the flexibility in deferring our non-critical capital expenditures and in managing our working capital to provide further financial flexibility as needed.

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Debt Financings in 2016

In April 2016, Southern Kuzbass Coal Company signed new settlement agreements with Sberbank which assigned part of the principal amount to Gazprombank. The principal in the total amount of $423.1 million and 3.1 billion rubles was assigned with $254.9 million remaining on Southern Kuzbass Coal Company. The remaining debt was restructured with extension of grace period and principal repayment, new interest rates and levels of financial covenants.

In March 2016, Yakutugol s loan from Gazprombank in the amount of $103.1 million was converted into rubles resulting in the debt of 6.9 billion rubles. Restructuring of this credit facility became effective.

In February 2016, we signed restructuring agreements with Sberbank for Chelyabinsk Metallurgical Plant, Izhstal, Bratsk Ferroalloy Plant, Yakutugol, Korshunov Mining Plant, Mechel Trading and Southern Kuzbass Coal Company facilities totaling approximately 29.3 billion rubles and $100.0 million. Restructuring granted an extension of grace period, extended repayments of our debt, new interest rates, partial capitalization of interests, as well as new levels of financial covenants.

In January 2016, part of Gazprombank debt, namely $400.0 million and $200.0 million credit facilities for Southern Kuzbass Coal Company and $385.8 million and $300.0 million credit facilities for Yakutugol were converted into rubles resulting in the total debt of approximately 99.0 billion rubles. Restructuring of these converted facilities became effective.

Debt Financings in 2015

During the course of 2015, we managed to reach an agreement with a part of our major creditors such as VTB Bank, Gazprombank, Sberbank and some others on the restructuring of the group s loan agreements including but not limited to the extension of the tenor of the loans, partial capitalization of interest payments, extension of the grace period, change of the interest rate calculation. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2015, Southern Kuzbass Coal Company signed settlement agreements with Sberbank on the credit facilities in the total amount of approximately $678.0 million and 3.1 billion rubles. Upon approval of these agreements by the court, all debt under Southern Kuzbass Coal Company facilities became due and payable. In April 2016, new settlement agreements with Sberbank were signed and approved by the court.

In August and December 2015, Mechel Service, Chelyabinsk Metallurgical Plant, Mechel Energo, Beloretsk Metallurgical Plant, Port Posiet, Mechel Coke and Urals Stampings Plant signed amendments to their credit facility agreements with Gazprombank for a total amount of 26.8 billion rubles (approximately $367.3 million as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022. As of the date hereof, restructuring of these credit facilities is not effective as there are some outstanding conditions precedent to be fulfilled.

In August and December 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with Gazprombank to restructure debt in a total amount of approximately $1.3 billion (approximately 93.7 billion rubles as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022, as well as the conversion into Russian rubles. Restructuring of these credit facilities became effective in January 2016.

In August and December 2015, Yakutugol signed amendments to its credit facility agreement with Gazprombank to restructure debt totaling $103.1 million (approximately 7.5 billion rubles as of December 31, 2015), providing for an extension of the grace period until April 2020 and the final maturity until April 2022, as well as the conversion into Russian rubles. Restructuring became effective upon conversion of the loan amount in March 2016.

In November 2015, Mechel Service signed amendments to its credit facilities with Moscow Credit Bank to restructure debt in the total amount of $83.3 million, providing for an extension of the final maturity until February 2017.

In September 2015, Chelyabinsk Metallurgical Plant entered into an approximately 8.0 billion ruble (as calculated based on the market spot rate as of October 27, 2015) credit facility agreement with VTB Bank to refinance debts of Skyblock Limited and HBL Holding GmbH totaling $107.7 million and 14.5 million, respectively, provided by VTB Bank. The facility has a grace period until April 2017 and the final maturity until April 2020.

In September 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with VTB Bank to restructure debt in the total amount of 15.8 billion rubles (approximately $217.1 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Southern Kuzbass Coal Company signed an amendment to its credit facility agreement with VTB Bank to restructure debt totaling 1.6 billion rubles (approximately $22.6 million as of December 31, 2015), providing for an extension of the repayment grace period until April 6, 2017 and the final maturity until April 6, 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Mechel signed an amendment to its credit facility agreement with VTB Bank to restructure debt in the total amount of 44.8 billion rubles (approximately $614.3 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

In September 2015, Yakutugol signed a settlement agreement with Eurasian Development Bank to restructure debt in the amount of approximately 1.9 billion rubles (approximately $25.5 million as of December 31, 2015). The final maturity of the credit facility agreement was extended until June 2018.

Debt Financings in 2014

During the course of 2014, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In July 2014, Yakutugol and Southern Kuzbass Coal Company entered into amendments to their credit facility agreements with VTB Bank to refinance debt in the total amount of 15.8 billion rubles (approximately $281.3 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. The loan was restructured in October 2015.

In May 2014, Mechel entered into an amendment to its credit facility agreement with VTB Bank to refinance debt in the amount of 40.0 billion rubles (approximately $711.0 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. VTB Bank also provided an additional loan for redemption of ruble bonds in the amount of up to 3.8 billion rubles (approximately $67.3 million as of December 31, 2014). The loan was restructured in October 2015.

In May 2014, Southern Kuzbass Coal Company entered into an amendment to its facility agreement with VTB Bank to refinance debt in the amount of 1.6 billion rubles (approximately $28.4 million as of December 31, 2014), providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018. The loan was restructured in October 2015.

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In March 2014, our subsidiary Elgaugol signed two loan agreements for an aggregate amount of $2.5 billion with Vnesheconombank for the project financing of the development of the Elga coal deposit. The loans have a tenor of 13.5 years, with a repayment grace period of 3.5 years.

Debt Financings in 2013

During the course of 2013, we continued our refinancing efforts through extending some of our existing credit facilities, amending financial covenants, including agreeing with the lenders on a covenant holiday for Mechel and Mechel Mining s ratios of net borrowings to EBITDA for the relevant periods ending in December 31, 2013 and June 30, 2014. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2013, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale and VTB Capital Plc entered into an amendment agreement to the existing pre-export facility agreements for a total amount of $1.0 billion. The amendments provide that the loan, which was entering the repayment phase in December 2013, will be repayable in equal monthly installments until December 2016 following a grace period of 12 months ending in December 2014.

In December 2013, several of our subsidiaries and Sberbank entered into separate amendments to their loan agreements totaling 26.6 billion rubles (approximately $808 million) for the restructuring and refinancing of existing indebtedness and working capital. Of this amount, Chelyabinsk Metallurgical Plant accounted for 21.5 billion rubles (approximately $655.9 million) and Mechel Trading, Izhstal, Southern Kuzbass Coal Company, Yakutugol, Korshunov Mining Plant and Bratsk Ferroalloy Plant accounted for, in the aggregate, 5.1 billion rubles (approximately $156.2 million). The facilities totaling 13.4 billion rubles (approximately $410.7 million) have a tenor of five years with a repayment grace period until March 28, 2015. In February and March 2016, our subsidiaries signed restructuring agreements with Sberbank.

In October 2013, our subsidiary Elgaugol entered into a $150.0 million bridge facility with Vnesheconombank with a tenor of six months for the development of the Elga coal complex. As of December 31, 2015, the overdue principal and the overdue interest amounted to $146.4 million and approximately $3.0 million (approximately 10.7 billion rubles and 215.2 million rubles), respectively. In March 2016, the overdue interest was fully repaid. See also Item 10. Additional Information Material Contracts Project Finance Credit Facility for Elgaugol from Vnesheconombank.

In August 2013, Chelyabinsk Metallurgical Plant entered into a revolving credit facility with Alfa-Bank for a total amount of $150.0 million. The facility was provided for working capital financing and was fully drawn as of December 31, 2013. In March 2014, the credit facility was amended providing for full repayment of the loan in five equal weekly installments, the last installment falling due not later than April 25, 2014. In April 2014, the facility was fully repaid.

In April 2013, Mechel entered into a 40.0 billion ruble (approximately $1.3 billion) credit facility agreement with VTB Bank for a period of five years. The facility allowed a 15-month grace period and was to be repaid in equal installments on a quarterly basis. The proceeds were used to refinance existing indebtedness with VTB Bank as well as to refinance other obligations of the companies within our group (including redemption of ruble bonds). In May 2014, we signed amendments with VTB Bank to refinance the facility, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2013, our subsidiaries Beloretsk Metallurgical Plant and Urals Stampings Plant entered into revolving credit facilities with Gazprombank for a total amount of 3.3 billion rubles (approximately $106.9 million). The purpose of the facilities was working capital financing. Initially, the term of the facilities was three years with the term of each tranche of up to 24 months. The credit facility agreements were restructured in August and December 2015.

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In April 2013, our subsidiaries Southern Kuzbass Coal Company and Yakutugol entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of $889.0 million: $400.0 million was made available to Southern Kuzbass Coal Company and $489.0 million was made available to Yakutugol, both for a period of up to five years with a three-year grace period obtained for the purpose of funding operational activities and refinancing of short-term debt provided by Gazprombank. As of December 31, 2015, the amount outstanding under the Southern Kuzbass Coal Company facility was $400.0 million and the amount outstanding under the Yakutugol facility was $385.8 million. The credit facility agreements were restructured and converted into rubles in January 2016. As a result, the debt of Southern Kuzbass Coal Company and Yakutugol amounted to a total of approximately 60.9 billion rubles.

In March and April 2013, our subsidiary Mecheltrans entered into two non-revolving credit facilities with Moscow Credit Bank for a total amount of $88 million for a period of one year each with a bullet repayment. The facilities were provided for the purpose of working capital financing. In May 2013, the facilities amount was increased to $105 million. In April 2014, we extended the maturity of the facilities until December 2014 and replaced the borrower with Mechel Service. In December 2014, the maturity of the facilities was extended until February 2016. In November 2015, the maturity was further extended until February 2017.

Debt Financings in 2012

During the course of 2012, we obtained or amended the following major debt financings. See Description of Certain Indebtedness and Item 10. Additional Information Material Contracts for a summary description of the terms of these facilities.

In December 2012, our subsidiaries Yakutugol and Southern Kuzbass Coal Company and a syndicate of banks coordinated by ING Bank N.V., Société Générale, UniCredit, JSCB Rosbank and ABN AMRO Bank N.V. entered into an amendment and restatement agreement to the existing pre-export facility agreements for a total amount of $1.0 billion. The amendments provided an extension of repayment grace period under the loan until December 2013. The loan was subsequently amended in December 2013.

In December 2012, following the repayment of the initial drawdown under a revolving credit line extended to Mechel Trading by Sberbank under a long-term framework agreement entered into in October 2011, Mechel Trading re-drew $100.0 million under this credit line. In December 2013, the facility was restructured for a further period of five years.

In October 2012, Southern Kuzbass Coal Company obtained four non-revolving credit lines for five years from Sberbank for a total amount of 24.0 billion rubles (approximately $772.3 million) with a three-year grace period. The purpose of the credit lines was working capital financing. In December 2015, Southern Kuzbass Coal Company signed settlement agreements which were approved by the court.

In April 2012, we extended our existing loans from VTB Bank for Yakutugol and Southern Kuzbass Coal Company in the total amount of approximately $460.0 million for a period of up to three years. In July 2014, Yakutugol and Southern Kuzbass Coal Company signed amendments to the loan agreements, providing for an extension of grace period until April 2015 and final maturity until April 2018.

In April 2012, our subsidiaries Southern Kuzbass Coal Company and Yakutugol entered into separate non-revolving credit facility agreements with Gazprombank for a total amount of $500.0 million for a period of up to five years for the purpose of funding operational activities and refinancing our short-term debt. As of December 31, 2015, the amount outstanding under the Southern Kuzbass Coal Company facility was $200.0 million and the amount outstanding under the Yakutugol facility was $300.0 million. The credit facility agreements were restructured and converted into rubles in January 2016. As a result, the debt of Southern Kuzbass Coal Company and Yakutugol amounted to a total of approximately 38.1 billion rubles.

In April 2012, we completed placement of our non-convertible interest-bearing BO-05, BO-06, BO-07, BO-11 and BO-12 series exchange bonds in an aggregate principal amount of 15.0 billion rubles (approximately $506.1 million). The proceeds were used to refinance some of our short-term debt. In April 2013, the bonds were redeemed for the entire amount.

In February 2012, we completed placement of our non-convertible interest-bearing BO-04 series exchange bonds in an aggregate principal amount of 5.0 billion rubles (approximately $167.3 million). The proceeds were used to refinance our short-term debt. In February 2014, this series was redeemed for the total amount of 4.254 billion rubles. In February 2015, this series was fully repaid.

In January 2012, Mechel Trading refinanced its existing loans with Alfa-Bank through a new revolving line in the amount of $150.0 million with the ability to draw tranches and with the final repayment to be made not later than October 2016. The proceeds were used for working capital and trade financing. The facility was fully repaid in September 2013.

Debt Financings in 2011

During the course of 2011, we obtained the following major debt financings. See Description of Certain Indebtedness and Russian bonds for a summary description of the terms of these facilities.

In October 2011, Mechel Trading obtained a revolving yearly renewable credit line from Sberbank in the amount of $130.0 million for three years for the purposes of working capital, intra-group and pre-export financing. The credit line was made available under the long-term framework agreement with Sberbank. The initial drawdown was fully repaid in October and December 2012 to allow further drawdowns.

In October 2011, our subsidiary Mechel Energo obtained a credit line for two years from Gazprombank in the amount of 3.0 billion rubles (approximately $102.1 million). The credit line was provided for the purpose of financing our day-to-day operations. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 5.0 billion rubles. In December 2015, Mechel Energo s debt in the amount of 3.6 billion rubles was partially transferred to the other borrowers: 1.4 billion rubles to Chelyabinsk Metallurgical Plant, 2.0 billion rubles to Southern Kuzbass Coal Company and 0.2 billion rubles to Urals Stampings Plant. The rest of 1.4 billion rubles remained at Mechel Energo. The transfer of the debt came into effect on December 4, 2015.

In October 2011, our subsidiary Mechel Trading obtained a credit facility in the amount of $180.0 million to refinance a portion of our short-term loans. The loan was provided by a syndicate of banks, ING Bank N.V., Barclays Capital Inc. and ZAO Unicredit Bank, for a period of three years with 18-month grace period. In May 2014, the facility was fully repaid.

In June 2011, Yakutugol obtained a non-revolving credit line for five years from Eurasian Development Bank in the amount of 2.8 billion rubles (approximately $95.3 million) with a 24-month grace period for the sole purpose of financing the development of the Elga coal deposit. The loan was restructured in September 2015.

In June 2011, we completed placement of our non-convertible interest-bearing bonds of the 17th, 18th and 19th series in the aggregate amount of 15.0 billion rubles. The proceeds were used to refinance our short-term debt.

In March 2011, our subsidiary Chelyabinsk Metallurgical Plant obtained a revolving credit line for a period of 1.5 years from Gazprombank in the amount of 6.0 billion rubles (approximately $204.2 million) for the purpose of working capital financing. In September 2011, the available limit was increased up to 11.0 billion rubles (approximately $374.3 million) and the period was extended up to five years. In May 2012, we extended the credit line for up to five years and the amount of the credit line was reduced to 6.0 billion rubles. The credit facility agreement was restructured in August and December 2015.

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In March 2011, our subsidiary Mechel Service obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately $102.1 million) for a period of 1.5 years. The purpose of the credit line was working capital financing. In October 2011, we agreed with the lender to increase the amount of the credit line up to 4.0 billion rubles (approximately $136.1 million) and extend its period up to two years. In May 2012, we extended the credit line for up to 3.5 years and the amount of the credit line was increased up to 11.0 billion rubles. In February 2016, Mechel Service s debt in the amount of 9.6 billion rubles was partially transferred to the other borrowers: 1.4 billion rubles to Chelyabinsk Metallurgical Plant, 6.5 billion rubles to Southern Kuzbass Coal Company, 1.4 billion rubles to Mechel Coke and 0.3 billion rubles to Urals Stampings Plant. The rest of 1.4 billion rubles remained at Mechel Service. The transfer of the debt came into effect on February 4, 2016.

In February 2011, our subsidiary Mechel Trading House obtained a revolving credit line from Gazprombank totaling 3 billion rubles (approximately $102.1 million) for a period of 1.5 years. The purpose of the loan was to finance the working capital of the company. In October 2011, the amount of the credit line was increased up to 4.0 billion rubles (approximately $136.1 million) and the term was extended for a period of up to two years. In April 2012, the parties agreed to terminate the facility.

In February 2011, we completed two placements of our non-convertible interest-bearing bonds of the 15th and 16th series in the aggregate amount of 10.0 billion rubles. The proceeds were used to fund the working capital of our group, to refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. In 2014-2015, the 15th and 16th series were redeemed for the total amount of approximately 8.3 billion rubles.

On February 7, 2011, our subsidiary Southern Kuzbass Coal Company obtained a credit line in the amount of 6.2 billion rubles (approximately $211.0 million) to finance the construction of the second stage of Sibirginskaya Underground. The loan had been provided by TransCreditBank OAO (now VTB Bank) for a period of five years with an amortized monthly repayment starting on February 2014 until December 2015 and was to be repaid in full by February 6, 2016. In May 2014, we signed amendments to the loan agreement to extend the repayment grace period until April 2015 and the final maturity until April 2018. As of December 31, 2014, the amount outstanding under the facility was 1.6 billion rubles (approximately $28.4 million).

Restrictive Covenants

Almost all of our loan agreements contain a number of covenants and restrictions. Such covenants and restrictions include, but are not limited to, various financial ratios, limitations on amount of debt (including indebtedness of certain companies within our group), minimum value of shareholder equity, various information and certain other covenants, as well as acceleration and cross-default provisions. The covenants also include limitations on the amount of dividends on our common and preferred shares, and amounts that can be spent for capital expenditures, new investments and acquisitions. Unless a breach is remedied or a waiver is obtained, a breach of such covenants and restrictions generally permits lenders to demand accelerated repayment of principal and interest under their respective loan agreements. In addition, in the event of a payment default or the violation of certain other covenants and restrictions, creditors under other loan agreements can demand accelerated repayment of principal and interest under such other loan agreements pursuant to the cross-default provisions in such other agreements. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects, Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting If we are unable to restructure all of our indebtedness or fail to comply with the new terms of the restructured indebtedness, our lenders may claim for accelerated repayment, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects and Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have a substantial amount of outstanding indebtedness with restrictive financial covenants and most shares and assets in our subsidiaries are pledged.

The table below sets out the requirements of our most significant restrictive debt covenants and the actual ratios/amounts as of December 31, 2015.

Restrictive Covenant	**Requirement**	**Actual as of December 31, 2015**
Mechel s Adjusted Shareholder Equity	Shall be greater than or equal to $3.0 billion (RUB 218,648 million as of December 31, 2015)	Negative RUB 42,384 million
Mechel s Net Borrowings	Shall not exceed $10.0 billion (RUB 728,827 million as of December 31, 2015)	RUB 492,903 million
Mechel s Net Borrowings to EBITDA ratio	Shall not exceed 9.75:1	11.2:1
Mechel s Total Borrowings to EBITDA ratio	Shall not exceed 9.5:1	11.2:1
Mechel s EBITDA to Net Interest Expense ratio	Shall not be less than 1.15:1	0.8:1
Mechel s EBITDA to Consolidated Financial Expense ratio	Shall not be less than 0.9:1	0.8:1

As of December 31, 2015, we were in breach of almost all major financial covenants contained in the group s loan agreements, except for the targeted amount of Net Borrowings.

As of December 31, 2015, Mechel Mining s financial covenants were not tested.

As of December 31, 2015 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the breaches of the financial covenants under the applicable loan agreements.

In addition, as of December 31, 2015, we were in breach of a number of non-financial covenants under most of our credit facilities, including but not limited to facilities from VTB Bank, Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements. Such covenant breaches include, among others, the violation of negative pledge restrictions, the breach of maximum thresholds for unpaid liabilities and the existence of dispute resolution proceedings against various companies of the group with claims exceeding permitted thresholds.

Finally, as of December 31, 2015, we failed to pay scheduled principal and interest amounts within the prescribed grace periods under most of our loans, including but not limited to loans from Gazprombank and Sberbank, as well as under the Pre-Export Facility Agreements, and such amounts exceeded permitted thresholds.

As of December 31, 2015 and as of the date hereof, we did not remedy or obtain the required waivers with respect to the failure to pay the amounts due and the breaches of the non-financial covenants under the applicable loan agreements.

The failure to pay the scheduled principal and interest amounts as described above, as well as the breach of other covenants in our loan agreements, which were not remedied by us or waived by our creditors, permit the creditors under those loan agreements to accelerate the payment of principal and interest under those loan agreements, as well as trigger cross-default provisions under a number of other facilities, permitting the respective lenders under such other facilities to accelerate the payment of principal and interest under their loans. For a more detailed description of the current terms of our loan agreements, see Description of Certain Indebtedness and Item 10. Additional

Information Material Contracts.

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The failure to pay amounts due, the non-compliance with financial and non-financial covenants and the triggering of the cross-default provisions resulted in the reclassification of our group s long-term debt into short-term liabilities in the amount of RUB 175,743 million as of December 31, 2015.

For a more detailed description of the existing payment defaults, breaches of covenants and restrictions, as well as other matters, see Item 13. Defaults, Dividend Arrearages and Delinquencies.

Our ability to meet the debt covenants has been estimated on the basis of our short-term budgets and long-term projection (the **Projection**) of the company. The Projection combines production plans by entities, key products and cost items price dynamics, maintenance and project capital investment program, loans portfolio and repayment schedule and other budgeted and projected items. It includes income and cash flow statements both on separate entities and consolidated level which is being used for purposes of debt covenants calculation. The Projection is prepared using assumptions that comparable market participants would use.

To forecast key product prices, exchange rates dynamics and inflation rates we use a wide variety of sources including the following institutions: Ministry of Economic Development of the Russian Federation, leading investment banks, Platts, CRU, Metal Expert, RasMin, Rudprom, World Bank, Oxford Economics, Consensus Economics, etc. along with our own estimates.

As of December 31, 2015, we projected the following covenant ratios for the forthcoming six-month and 12-month periods, which we are required to comply with under our most significant loan agreements:

Restrictive Covenant	Requirement	Projection as of June 30, 2016	Projection as of December 31,2016
Mechel s Net Assets	Shall be greater than or equal to Mechel s share capital (RUB 4,163 million as of December 31, 2015)	Negative RUB 265,379 million	Negative RUB 268,375 million
Mechel s Net Borrowings to EBITDA ratio	Shall not exceed 9.0:1	10.2:1	11.4:1
Mechel s Total Borrowings to EBITDA ratio	Shall not exceed 7.5:1	10.2:1	11.4:1
Mechel s EBITDA to Net Interest Expense ratio	Shall not be less than 1.25:1	1.0:1	1.0:1
Mechel s EBITDA to Consolidated Financial Expense ratio	Shall not be less than 1.25:1	1.0:1	1.0:1

The significant assumptions underlying our debt covenant determination are projected product prices, sales volumes, cost dynamics, inflation rates and discount rates. Some of these assumptions may materially deviate from our historical results primarily due to the market downturns and economic slowdowns in the recent years. All these material assumptions are based on our projections and are subject to risk and uncertainty. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Our failure to comply with the payment and other obligations in our credit facilities caused some of our creditors to accelerate amounts due under their loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could lead to cross-default under other borrowings and have a material adverse effect on our business, financial condition, results of operations and prospects.

Description of Certain Indebtedness

See Item 10. Additional Information Material Contracts for a summary description of material contracts related to our indebtedness. In addition, we have described below certain additional contracts related to our indebtedness. For more information, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants, Item 13. Defaults, Dividend Arrearages and Delinquencies and Item 8. Financial Information Litigation Debt litigation.

Credit Facility Agreement for Yakutugol from Gazprombank

General

On February 6, 2009, our subsidiary Yakutugol entered into a credit facility agreement with Gazprombank for a total amount of $550.0 million for the purposes of funding financial and operating activities, including funding affiliates and credit repayments. The facility was initially repayable in quarterly installments starting from the first quarter of 2010 through the first quarter of 2012, however in February 2010 the final maturity was extended until February 2015.

As of December 31, 2014, the amount outstanding under the credit facility was $103.1 million. In August and December 2015, Yakutugol signed amendments to the credit facility agreement with Gazprombank to restructure debt totaling $103.1 million, providing for an extension of the grace period until April 2020 and the final maturity until April 2022. In March 2016, the loan amount was converted into rubles resulting in the debt of 6.9 billion rubles. Restructuring of the credit facility became effective.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to $103.1 million and $8.2 million (approximately 7.5 billion rubles and 594.1 million rubles), respectively. All overdue interest shall be repaid until the end of March 2017.

Interest rate and interest period

Starting from the effective date, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate on the CBR key rate plus 3.5% per year if the borrower fails to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid in accordance with the principal repayment schedule.

Repayment and prepayments

The final maturity date is April 20, 2022. Repayment is to be made in equal monthly installments starting from April 4, 2020. The lender may change the final maturity date on April 20, 2020 if the borrower fails to meet certain additional conditions, including obtaining similar terms with Sberbank and VTB Bank. In this case repayment is to be made in equal monthly installments starting from April 4, 2017.

The borrower may prepay the loan in full or in part with a 30 day prior notice to the lender.

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel Mining, Mechel Carbon, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and Southern Kuzbass Coal Company.

Security

The borrower s obligations are secured by a pledge of 25%+1 share in each of Southern Kuzbass Coal Company, Korshunov Mining Plant, Port Posiet, Izhstal, Chelyabinsk Metallurgical Plant, Beloretsk Metallurgical Plant and Urals Stampings Plant, 50%+1 share in Yakutugol and 25% in Port Temryuk. In March 2016, we mortgaged the Ulak-Elga rail line under the credit facility agreement.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

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Under the credit facility agreement, Mechel group s ratio of total borrowings to EBITDA shall not exceed 7.5:1 in 2016, 5.5:1 in 2017, 4.5:1 in 2018, 3.5:1 in 2019 and 3.0:1 in 2020. Mechel group s ratio of EBITDA to consolidated financial expense shall not be less than 1.25:1 in 2016, 1.50:1 in 2017, 1.75:1 in 2018, 2.0:1 in 2019 and 2.5:1 in 2020. During the period from 2017 to 2020, we also have to comply with the ratios of operational cash flow to EBITDA and EBITDA to revenues at the levels of 80% and 20%, respectively.

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

The credit facility agreement is governed by Russian law.

Credit Facility Agreements for Yakutugol and Southern Kuzbass Coal Company from VTB Bank

General

In September 2010, our subsidiaries Yakutugol and Southern Kuzbass Coal Company each entered into agreements further amending the one-year credit facility agreements executed with VTB Bank in November 2008 and further amended in November 2009, for the total amount of 13.6 billion rubles (approximately $422.4 million). In April 2012, we amended the credit facility agreements to extend their term until 2015 and change certain financial covenants.

In April 2014, VTB Bank converted the 13.6 billion ruble loan into U.S. dollars; as a result the debt of Yakutugol and Southern Kuzbass Coal Company amounted to $461.8 million. In July 2014, the debt was converted back into rubles and Yakutugol and Southern Kuzbass Coal Company signed amendments to the credit facility agreements in the amount of 5.8 billion rubles and 10.0 billion rubles (approximately $103.4 million and $177.9 million as of December 31, 2014), respectively, providing for an extension of the repayment grace period until April 2015 and the final maturity until April 2018.

In September 2015, Yakutugol and Southern Kuzbass Coal Company signed amendments to their credit facility agreements with VTB Bank to restructure debt in the total amount of 15.8 billion rubles (approximately $217.1 million as of December 31, 2015), providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The restructuring came into effect on October 13, 2015.

As of December 31, 2015, Yakutugol and Southern Kuzbass Coal Company had overdue penalty in the amount of 1.6 million rubles and 2.8 million rubles, respectively. We have requested the lender to write off the overdue penalty.

Interest rate and interest period

Interest under the credit facilities is payable at the CBR key rate plus 2.35% per year until January 6, 2018; and at the CBR key rate plus 2.99% per year from January 7, 2018. The lender may increase the interest rate by 1% per year if the borrowers fail to meet certain obligations under the credit facilities.

Repayment and prepayments

The final maturity of the credit facilities for both Southern Kuzbass Coal Company and Yakutugol is April 6, 2020. Each of the facilities is to be repaid in equal monthly installments starting on April 6, 2017. Prepayment for all or part of the loan amounts is allowed subject to simultaneous compliance with certain requirements.

Guarantee

The borrowers obligations are guaranteed by Mechel Mining, Mechel Carbon, Mechel Carbon Singapore, Mechel Trading, Korshunov Mining Plant, Urals Stampings Plant, Chelyabinsk Metallurgical Plant, Mechel and cross guarantee between Southern Kuzbass Coal Company and Yakutugol.

Security

The borrowers obligations are secured by a pledge of 25%-3 shares of Yakutugol, 25%+1 share of Southern Kuzbass Coal Company and 25%+1 share of Korshunov Mining Plant.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreements, Mechel group s ratio of net borrowings to EBITDA shall not exceed 9.00:1 until December 31, 2016, 8.00:1 until December 31, 2017, 7.00:1 until December 31, 2018, 6.00:1 until December 31, 2019, 5.00:1 until December 31, 2020 and thereafter. Mechel group s ratio of EBITDA to net interest expense shall not be less than 1.25:1 until December 31, 2016, 1.50:1 until December 31, 2017, 1.75:1 until December 31, 2018, 2.00:1 until December 31, 2019, 2.25:1 until December 31, 2020 and thereafter. Financial covenants are tested semi-annually.

The credit facility agreements contain certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

The credit facility agreements are governed by Russian law.

Credit Facility Agreement for Chelyabinsk Metallurgical Plant from Sberbank

General

On October 13, 2010, Sberbank opened a credit line for Chelyabinsk Metallurgical Plant for the total amount of 15.0 billion rubles (approximately $493.9 million) to refinance short-term debt. On December 19, 2013, the borrower and Sberbank entered into an amendment to the loan agreement by extending the term of the facility by five years with a repayment grace period until March 30, 2015 and amending the security structure. As of December 31, 2015, the facility was fully drawn.

In February 2016, Chelyabinsk Metallurgical Plant signed an amendment to its credit facility agreement with Sberbank to restructure debt in the total amount of 15.0 billion rubles, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to 9.0 billion rubles and 994.3 million rubles, respectively.

Interest rate and interest period

Starting from January 1, 2016, the interest under the credit facility is payable at the CBR key rate plus 3.5% per year, then starting from April 1, 2016, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate to the CBR key rate plus 3.5% per year if the borrower fails to obtain similar terms with

Gazprombank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should we obtain similar terms with Gazprombank and VTB Bank, the final maturity date shall be extended until April 10, 2022. In October 2016, the payment of 3.7 billion rubles shall be made and in October 2017 the payment of 5.2 billion rubles shall be made. The remaining amount is payable in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower s obligations under the credit facility agreement are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group s ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group s ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

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

The credit facility agreement is governed by Russian law.

Credit Facility for Mechel Trading from Sberbank

General

In December 2013, Mechel Trading and Sberbank entered into an amendment to the existing $100.0 million credit facility (two tranches for $25.0 million and $75.0 million) by extending the term of the facility by five years with a repayment grace period until March 2015 and amending the security structure. The purpose of the credit facility was working capital, intra-group and pre-export financing. As of December 31, 2015, the facility was fully drawn.

In February 2016, Mechel Trading signed an amendment to its credit facility with Sberbank to restructure debt totaling $100.0 million, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, the overdue principal and the overdue interest under the facility amounted to $20.0 million and $4.3 million (approximately 1.5 billion rubles and 311.2 million rubles), respectively.

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Interest rate and interest period

The interest rate under both tranches is payable quarterly at 3-month LIBOR plus a margin of 7%. Starting from January 1, 2016 and during the grace period, we apply the rate of 3-month LIBOR plus a margin of 5% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should we obtain similar terms with Gazprombank and VTB Bank, the final maturity date shall be extended until April 10, 2022. The repayment is to be made in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower s obligations under the credit facility are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group s ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group s ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

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

The credit facility agreement is governed by Russian law.

Credit Facility Agreement for Chelyabinsk Metallurgical Plant from Sberbank

General

On December 19, 2013, Sberbank opened a credit line for Chelyabinsk Metallurgical Plant in a total amount of 12.4 billion rubles for a period of five years with a repayment grace period until March 28, 2015. The purpose of the credit line was redemption of Mechel s bonds and financing of day-to-day operations. As of December 31, 2015, the facility was fully drawn.

In February 2016, Chelyabinsk Metallurgical Plant signed an amendment to its credit facility agreement with Sberbank to restructure debt in the total amount of 12.4 billion rubles, providing for an extension of the repayment grace period until April 2017 and the final maturity until April 2020. The grace period will be extended until January 2020 and the final maturity until April 2022, if we obtain similar terms with Gazprombank and VTB Bank. The amendment became effective upon signing, however, failure to comply with certain terms will lead to termination of the amendment. All overdue interest payments shall be capitalized, except for agreed amount which shall be paid.

As of December 31, 2015, Chelyabinsk Metallurgical Plant had the overdue principal in the amount of 2.5 billion rubles and the overdue interest in the amount of 991.6 million rubles.

Interest rate and interest period

Starting from January 1, 2016, the interest under the credit facility is payable at the CBR key rate plus 3.5% per year, then starting from April 1, 2016, the interest is payable at the CBR key rate plus 1.5% per year. The lender may change the interest rate to the CBR key rate plus 3.5% per year if the borrower fails to obtain similar terms with Gazprombank and VTB Bank. During the grace period, we apply the rate of 8.75% for interest repayment. The remaining unpaid interests are being capitalized and paid at the final maturity date.

Repayment and prepayments

Should certain conditions be fulfilled the final maturity date is April 10, 2022. In October 2016, the payment of 1.2 billion rubles shall be made. The remaining amount is payable in equal monthly installments starting from April 10, 2017 or January 10, 2020 (if the extension from Gazprombank and VTB Bank is obtained). The borrower may prepay the loan in full or in part with prior notice to the lender.

Guarantee

The borrower s obligations under the credit facility agreement are guaranteed by Mechel, Mecheltrans, Mechel Service, Bratsk Ferroalloy Plant, Izhstal, Yakutugol, Korshunov Mining Plant, Southern Kuzbass Coal Company, Mechel Trading and Mechel Mining.

Security

Starting from March 2016, the credit facility shares one security package with other credit facilities: a pledge of 25%+1 share of Mechel Mining, a pledge of 25%+1 share of Beloretsk Metallurgical Plant, pledges of movable assets and mortgage over immovable assets of other Sberbank borrowers within Mechel group.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group s ratio of total borrowings to EBITDA shall not exceed 7.5:1 as of June 30, 2016 and December 31, 2016, 5.5:1 as of June 30, 2017 and December 31, 2017, 4.5:1 as of June 30, 2018 and December 31, 2018, 3.5:1 as of June 30, 2019 and December 31, 2019, 3.0:1 as of June 30, 2020 and thereafter. Mechel group s ratio of EBITDA to consolidated financial expense shall not fall below 1.25:1 as of June 30, 2016 and December 31, 2016, 1.5:1 as of June 30, 2017 and December 31, 2017, 1.75:1 as of June 30, 2018 and December 31, 2018, 2.0:1 as of June 30, 2019 and December 31, 2019, 2.5:1 as of June 30, 2020 and thereafter.

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

The credit facility agreement is governed by Russian law.

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Credit Facility Agreement for Chelyabinsk Metallurgical Plant from VTB Bank

General

In September 2015, Chelyabinsk Metallurgical Plant entered into an approximately 8.0 billion ruble (as calculated based on the market spot rate as of October 27, 2015) credit facility agreement with VTB Bank to refinance debts of Skyblock Limited totaling $107.7 million, which consists of principal and interest in the amount of $101.9 million and $5.8 million, respectively, and HBL Holding GmbH totaling 14.5 million, provided by VTB Bank. The facility has a grace period until April 2017 and the final maturity until April 2020.

Interest rate and interest period

The interest rate under the credit facility is set at the level of the CBR key rate plus 2.35% per year until January 6, 2018 and from January 7, 2018 at the level of the CBR key rate plus 2.99% per year. The lender may increase the interest rate by 1% per year if the borrower fails to meet certain obligations under the facility.

Repayment and prepayments

The credit facility is repayable in equal monthly installments starting on April 6, 2017. The final maturity date is April 6, 2020. The borrower may prepay the loan in full or in part subject to simultaneous compliance with certain requirements.

Guarantee

The borrower obligations are guaranteed by Southern Kuzbass Coal Company, Korshunov Mining Plant, Urals Stampings Plant, Mechel, Yakutugol, Mechel Mining, Mechel Trading, Mechel Carbon Singapore and Mechel Carbon.

Security

The borrower obligations are secured by a pledge of 25%-3 shares of Yakutugol, 25%+1 share of Southern Kuzbass Coal Company and 25%+1 share of Korshunov Mining Plant.

Covenants and other matters

For the relevant period ending on December 31, 2015, we were not in compliance with certain financial and non-financial covenants.

Under the credit facility agreement, Mechel group s ratio of net borrowings to EBITDA shall not exceed 9.00:1 until December 31, 2016, 8.00:1 until December 31, 2017, 7.00:1 until December 31, 2018, 6.00:1 until December 31, 2019, 5.00:1 until December 31, 2020 and thereafter. Mechel group s ratio of EBITDA to net interest expense shall not be less than 1.25:1 until December 31, 2016, 1.50:1 until December 31, 2017, 1.75:1 until December 31, 2018, 2.00:1 until December 31, 2019, 2.25:1 until December 31, 2020 and thereafter. Financial covenants are tested semi-annually.

The credit facility contains certain customary representations and warranties, affirmative covenants, notice provisions and events of default, including change of control and cross-defaults relating to other debt, as well as limitations on payment of dividends, acquisitions and disposals and non-core transactions.

The credit facility agreement is governed by Russian law.

Russian bonds

On July 30, 2009, we placed series 04 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at

MICEX. The bonds are secured by a guarantee from Yakutugol. The proceeds were used to fund the construction of the Elga coal complex. The bonds are due on July 21, 2016. The bonds bear a coupon to be paid quarterly. The interest rate for the first 12 coupons was set at 19% per annum, for the 13-16 coupons was set at 11.25% per annum, for the 17-22 coupons was set at 13% per annum, for the 23-24 coupons was set at 8% per annum and for the 25-28 coupons was set at 2% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. The bonds are included on the CBR Lombard list; if the CBR excludes the bonds from this list, the bondholders may also demand early redemption of the bonds. We partially redeemed the bonds ahead of maturity on July 29, 2013 in the amount of 1.349 billion rubles, on January 27, 2014 in the amount of 1.276 billion rubles, on July 28, 2014 in the amount of 858 million rubles, on January 26, 2015 in the amount of 325 million rubles and on July 27, 2015 in the amount of 372.43 million rubles.

On September 7, 2010, we placed series 13 and series 14 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 10% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. In September 2015, we restructured the debt on series 13 and series 14 bonds. We were entitled to redeem the bonds on September 3, 2015, but failed to fulfill our obligations. On September 14, 2015, we published public irrevocable offers through which the bondholders were proposed to amend current schedules of redemption of the bonds and to waive the right to demand early redemption of the bonds. On September 17, 2015, the majority of the owners of the bonds series 13 and series 14 approved the new conditions at the general meeting of bondholders. On October 21, 2015, the CBR registered amendments to the equity documents. In accordance with the new conditions, the interest rate for the 11 coupon is set at 15% per annum and for the following coupon periods is determined by a formula based on the CBR key rate. The interest rate for the 12-13 coupons is set at (15%+(key rate+4%))/2, for the 14-15 coupons is set at (14%+(key rate +4%))/2, for the 16-17 coupons is set at (13%+(key rate +4%))/2 and for the 18-19 coupons is set at (12%+(key rate +4%))/2. We have to redeem the bonds amounting up to 500 thousand bonds of each series on September 28, 2015 and amounting up to 250 thousand bonds of each series on March 1, 2016 and August 31, 2016. We will gradually redeem the par value of both series of the bonds: 10% of par value on February 28, 2017, August 29, 2017 and February 27, 2018, 15% of par value on August 28, 2018 and February 26, 2019 and 20% of par value on August 27, 2019 and February 25, 2020. The bonds are due on February 25, 2020. On September 28, 2015, we partially redeemed the bonds of both series in the total amount of 999.34 million rubles which equaled to 999,341 bonds. On March 1, 2016, we partially redeemed the bonds of both series in the total amount of 485.1 million rubles which equaled to 485,089 bonds.

On February 22, 2011, we placed series 15 and series 16 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to fund the working capital of our group, refinance the existing loan agreements, as well as to finance the construction of the Elga coal complex and other investment projects of our group. The bonds are due on February 9, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 6 coupons was set at 8.25% per annum, for the 7-8 coupons was set at 13% per annum and for the 9-11 coupons was set at 8% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on August 12, 2016 until August 16, 2016. We are entitled to redeem such bonds on August 18, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds. We partially redeemed the series 15 and series 16 bonds ahead of maturity on February 20, 2014 in the amount of 8.149 billion rubles, on August 21, 2014 in the amount of 75 million rubles and on February 19, 2015 in the amount of 37.2 million rubles.

On June 9, 2011, we placed series 17 and series 18 non-convertible interest-bearing bonds in an aggregate principal amount of 10.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on May 27, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on May 29, 2016. We are entitled to redeem the bonds on June 6, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

On June 14, 2011, we placed series 19 non-convertible interest-bearing bonds in an aggregate principal amount of 5.0 billion rubles. The bonds are registered with the FFMS and admitted to trading and listed at MICEX. The proceeds were used to refinance our short-term debt. The bonds are due on June 1, 2021. The bonds bear a coupon to be paid on a semi-annual basis. The interest rate for the first 10 coupons was set at 8.40% per annum. We will be entitled to set the interest rates for the following coupon periods at our discretion, in which case the bondholders will have the right to demand that we redeem the bonds at par value before each such coupon period starts. The bondholders have an option to demand early redemption of the bonds at par value commencing on June 3, 2016. We are entitled to redeem the bonds on June 9, 2016. The bondholders are also entitled to demand early redemption of the bonds in certain other cases specified in the decision of issuance of the bonds, including when we fail to pay coupon on any of our bonds for more than 7 days or fail to repay the principal on any of our bonds for more than 30 days, or when we default on or are required to redeem any of our bonds.

Contractual Obligations and Commercial Commitments

The following table sets forth the amount of our contractual obligations and commercial commitments as of December 31, 2015.

Contractual Obligations and Commercial Commitments	Total	Payments Due by Period Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
		(In millions of Russian rubles)			
Short-Term Borrowings and Current Portion of Long-Term Debt	491,674	491,674			
Long-Term Debt Obligations, Net of Current Portion	4,308		1,991	2,317	
Interest Payable(1)	1,038	1,038			
Operating Lease Obligations	59,207	1,798	3,476	3,467	50,466
Purchase Obligations(2)	3,593	3,593			
Restructured Taxes Payable	465	328	137		
Rehabilitation provision(3)	3,704	264	694	464	2,282
Pension obligations(4)(5)	4,562	1,120	751	759	1,932
Short-Term Finance Lease Obligations	13,507	13,507			
Long-Term Finance Lease Obligations	481		461	20	
Contractual commitments to acquire plant, property and equipment(6)	23,231	23,207	24		
Contractual commitments to acquire raw materials and for delivery of goods and services	58,604	54,201	2,047	199	2,158
Estimated financial costs(7)	218,046	39,098	84,110	94,838	
Estimated average interest rate(7)	9.0%	9.9%	8.8%	8.8%	
Total Contractual Obligations and Commercial Commitments	882,419	629,827	93,690	102,064	56,838

(1) Interest payable as of December 31, 2015 includes RUB 996 million of interests and fines accrued on overdue payments related to finance lease contracts. Interest payable is included in amount of RUB 1,038 million in current period figure. In the year ended December 31, 2015, our interest expense was RUB 59,505 million and we paid out RUB 29,216 million of interest.

(2) Accounts payable for capital expenditures.

(3) See note 23 to the consolidated financial statements.

(4) See note 24 to the consolidated financial statements.

(5) Includes RUB 3,746 million pension obligations due in more than one year.

(6) See note 29 to the consolidated financial statements.

(7) Interest expense is estimated for a five-year period based on (1) estimated cash flows and change of the debt level, (2) forecasted LIBOR rate where applicable, (3) actual long-term contract interest rates and fixed rates, forecasted with reasonable assurance on the basis of historic relations with major banking institutions.

As of December 31, 2015, we guaranteed the fulfillment of obligations to third parties for a total amount of RUB 56 million. These guarantees are given by us under promissory notes, which were transferred by endorsement.

Commitments for capital expenditures were RUB 23,231 million as of December 31, 2015. This amount includes our contractual commitments related to acquisition of property, plant and equipment arising from various purchase and construction agreements in respect of railway construction for the Elga coal complex in the amount of RUB 19,890 million. See note 29 to the consolidated financial statements.

The total carrying and discounted amount of commitments under lease contracts as of December 31, 2015 is equal to RUB nil. See note 29 to the consolidated financial statements.

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Inflation

Inflation in the Russian Federation was 12.9% in 2015 and 11.4% in 2014. Inflation has generally not had a material impact on our results of operations during the period under review in this section. However, we cannot guarantee that inflation will not materially adversely impact our results of operations in the future in case inflation accelerates. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Inflation could increase our costs and decrease operating margins.

Critical Accounting Policies and Estimates

Basis of preparation

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for specific financial assets and liabilities that have been measured at fair value and certain exemptions applied by us under IFRS 1 First-time Adoption of International Financial Reporting Standards (see note 9 to the consolidated financial statements).

Russian associates and subsidiaries of our group maintain their books and records in Russian rubles and prepare accounting reports in accordance with the accounting principles and practices mandated by Russian Accounting Standards (**RAS**). Foreign subsidiaries and associates maintain their books and records in different foreign functional currencies and prepare accounting reports in accordance with generally accepted accounting principles (GAAP) in various jurisdictions. Our and our subsidiaries and associates financial statements and accounting reports for the purposes of preparation of the consolidated financial statements in accordance with IFRS have been translated and adjusted on the basis of the respective standalone RAS or other GAAP financial statements.

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

For all periods up to and including the year ended December 31, 2014, we prepared our financial statements in accordance with generally accepted accounting principles in U.S. GAAP. The accompanying consolidated financial statements for the year ended December 31, 2015 are the first we have prepared in accordance with IFRS. Refer to note 9 for information on how our group adopted IFRS.

The consolidated financial statements are presented in millions of Russian rubles, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise our and our subsidiaries financial statements as of December 31, 2015. Control is achieved when our group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, we control an investee if, and only if, we have:

power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

exposure, or rights, to variable returns from its involvement with the investee; and

the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when we obtain control over the subsidiary and ceases when we lose control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date our group gains control until the date our group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (loss) (**OCI**) are attributed to the equity holders of the parent of our group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with our group s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If our group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the statement of profit (loss) and other comprehensive income (loss). Any investment retained is recognized at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, we elect whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When our group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit (loss) and other comprehensive income (loss).

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, our group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of profit (loss) and other comprehensive income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our group s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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Where goodwill has been allocated to a cash-generating unit (**CGU**) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

An associate is an entity over which we have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Our investments in our associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in our share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit (loss) and other comprehensive income (loss) reflects our group s share of the results of operations of the associate. Any change in OCI of those investees is presented as part of our group s OCI. In addition, when there has been a change recognized directly in the equity of the associate, our group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between us and the associate are eliminated to the extent of the interest in the associate.

The aggregate of our group s share of profit or loss of an associate is shown on the face of the statement of profit (loss) and other comprehensive income (loss) outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as ourselves. When necessary, adjustments are made to bring the accounting policies in line with those of our group.

After application of the equity method, our group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, we determine whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, our group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as Share of profit of an associate in the consolidated statement of comprehensive income (loss).

Upon loss of significant influence over the associate, our group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in in the consolidated statement of comprehensive income (loss).

Current versus non-current classification

We present assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

Expected to be realized or intended to be sold or consumed in the normal operating cycle;

Held primarily for the purpose of trading;

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- Expected to be realized within twelve months after the reporting period; or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;

- It is held primarily for the purpose of trading;

- It is due to be settled within twelve months after the reporting period; or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

We classify all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by our group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to our group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duty.

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

The following criteria are also applicable to other specific revenue transactions:

Sales of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, associated sales taxes (VAT) and export duties.

Principal vs agent arrangements

We are involved in re-selling goods and services produced or rendered by other entities. Revenues are reported based on the gross amount billed to the customer when our group has earned revenue as a principal from the sale of goods or services, or the net amount retained (that is, the amount billed to the customer reduced by the amount billed by the supplier) when our group has earned a commission or fee as an agent.

Shipping and handling costs

We classify all amounts billed to customers in a sale transaction and related to shipping and handling as part of sales revenue and all related shipping and handling costs as selling and distribution expenses when we are acting as a principal in accordance with the requirements of IAS 18 Revenue.

Sales of power

In the power segment (see note 28 to the consolidated financial statements), revenue is recognized based on unit of power measure (kilowatts) delivered to customers, since at that point revenue recognition criteria are met. The billings are usually done on a monthly basis, several days after each month end.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (**EIR**). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit (loss) and other comprehensive income (loss).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where our group operates and generates taxable income.

Uncertain tax positions

Our policy is to comply fully with the applicable tax regulations in the jurisdictions where our operations are subject to income taxes. Our estimates of current income tax expense and liabilities are calculated assuming that all tax computations filed by our subsidiaries will be subject to a review or audit by the relevant tax authorities. We and the relevant tax authorities may have different interpretations of how regulations should be applied to actual transactions. Such uncertain tax positions are accounted for in accordance with IAS 12 Income Taxes and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. We apply single most likely outcome method of uncertain tax positions estimation.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Foreign currencies

Our consolidated financial statements are presented in Russian rubles, which is also the parent company s functional currency. For each entity, we determine the functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies for our main Russian, European, Ukrainian and Kazakh subsidiaries are the Russian ruble, euro, the Ukrainian hryvnia and the Kazakh tenge, respectively. The U.S. dollar is the functional currency of our other main international operations. We use the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by our group s entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

	Rates at			Average exchange rates* for the years ended	
	December 31,		January 1,	December 31,	
Currency	**2015**	**2014**	**2014**	**2015**	**2014**
U.S. dollar	72.88	56.26	32.73	60.96	38.42
Euro	79.70	68.34	44.97	67.78	50.82
Ukrainian hryvnia	3.05	3.56	3.97	2.83	3.25
Kazakh tenge	0.22	0.31	0.21	0.28	0.21

(*) Exchange rates shown in Russian rubles for one local currency unit.
The majority of the balances and operations not already denominated in the presentation currency were denominated in the U.S. dollar and euro.

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into rubles at the rate of exchange prevailing at the reporting date and their statements of profit (loss) and other comprehensive income (loss) are translated at the weighted average exchange rate for the period. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

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Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Non-current assets held for sale and discontinued operations

We classify non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active program to locate a buyer and complete the plan must have been initiated.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit (loss) and other comprehensive income (loss).

Additional disclosures are provided in note 17. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Mineral licenses

Mineral licenses acquired separately are measured on initial recognition at cost. The cost of mineral licenses acquired in a business combination is their fair value at the date of acquisition. Mineral licenses are amortized under a unit of production basis over proven and probable reserves of the relevant area.

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

We established a policy according to which internal mining engineers review our proven and probable reserves annually. This policy does not change our approach to the measurement of proven and probable reserves as of their acquisition dates as part of business combinations that involve independent mining engineers. Our proven and probable reserve estimates as of the reporting date were made by internal mining engineers and the majority of the assumptions underlying these estimates had been previously reviewed and verified by independent mining engineers.

Property, plant and equipment

Property, plant and equipment and construction in progress are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation provision, and, for qualifying assets (where relevant), borrowing costs and other costs incurred in connection with the borrowings. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of property, plant and equipment are required to be replaced at intervals, we depreciate them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Where a separately depreciated asset, or part of an asset, is replaced, the expenditure is capitalized. Where part of the asset was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other repair and maintenance costs are recognized in the statement of profit (loss) and other comprehensive income (loss) as incurred.

The capitalized value of a finance lease is also included in property, plant and equipment. The present value of the expected cost for the rehabilitation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Inventories planned to be used for construction and spare parts with useful lives over one year are recorded within property, plant and equipment.

Mining assets and processing plant and equipment

Mining assets and processing plant and equipment are those assets, including construction in progress, which are intended to be used only for the needs of a certain mine or field, and upon full extraction exhausting of the reserves of such mine or the field, these assets cannot be further used for any other purpose without a capital reconstruction.

Items of production mines are stated at cost, less accumulated depletion and accumulated impairment losses, if any.

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

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of identified proven and probable reserves. Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless we conclude that a future economic benefit is more likely than not to be realized.

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Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalized as part of cost of constructing the mine. The capitalization of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. Stripping cots undertaken during the production phase of mine are charged to profit and loss as cost of goods sold as incurred.

When mining assets and processing plant and equipment are placed in production, the applicable capitalized costs, including mine development costs, are depleted using the unit-of-production method at the ratio of tonnes of mineral mined or processed to the estimated proven and probable mineral reserves that are expected to be mined during the estimated lives of the mines. The unit-of-production method is used for the underground mine development structure costs as their useful lives coincide with the estimated lives of mines, provided that all repairs and maintenance are timely carried out.

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

Other property, plant and equipment

Capitalized production costs for internally developed assets include material, direct labor costs, and allocated material and manufacturing overhead costs. When construction activities are performed over an extended period, borrowing costs incurred in connection with the borrowing of funds are capitalized. Construction-in-progress and equipment held for installation are not depreciated until the constructed or installed asset is substantially ready for its intended use.

Property, plant and equipment (apart from railway of the Elga coal deposit) are depreciated using the straight-line method. Upon sale or retirement, the acquisition or production cost and related accumulated depreciation are removed from the consolidated statement of financial position and any gain or loss is included in the statement of profit (loss) and comprehensive income (loss).

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

Category of asset	**Useful economic lives estimates, years**
Buildings and constructions	5-85
Operating machinery and equipment	2-30
Transportation vehicles	2-25
Other equipment	2-15

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to our group is classified as a finance lease.

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Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit (loss) and other comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that we will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit (loss) and other comprehensive income (loss) on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest including exchange differences arising from foreign currency borrowings and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of our group during the period.

According to IAS 23 Borrowing Costs, borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Foreign exchange differences on borrowings directly attributable to the acquisition, construction or production of a qualifying asset are considered by us to be eligible for capitalization in the amount of difference between actual amount of interest costs and potential amount of interest costs calculated using a weighted average of rates applicable to ruble-nominated borrowings of our group during the period. All other borrowing costs are recognized in the statement of profit (loss) and other comprehensive income (loss) in the period in which they are incurred.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with determinable useful lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to sixteen years.

Financial instruments initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (**AFS**) financial assets, or as derivatives. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that we commit to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments; and
- AFS financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit (loss) and other comprehensive income (loss).

Loans and receivables

This category is the most relevant to our group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit (loss) and other comprehensive income (loss). The losses arising from impairment are recognized in the statement of profit (loss) and other comprehensive income (loss) in finance costs for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to note 13.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

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After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit (loss) and other comprehensive income (loss) in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from our consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- We have transferred our rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) we have transferred substantially all the risks and rewards of the asset, or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes to the consolidated financial statements: Financial assets (note 11) and Trade and other receivables (note 13).

We assess, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred loss event), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, we first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If our group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Our financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

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Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognized in the statement of profit (loss) and other comprehensive income (loss).

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 Financial Instruments: Recognition and Measurement are satisfied.

Loans and borrowings

This is the category most relevant to our group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit (loss) and other comprehensive income (loss). This category generally applies to interest-bearing loans and borrowings (see note 11 to the consolidated financial statements).

Financial guarantee contracts

Financial guarantee contracts issued by our group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit (loss) and other comprehensive income (loss).

Derivative financial instruments

We use derivative financial instruments, such as cross currency swap and cross currency option. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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For the years ended December 31, 2015, 2014 and as of January 1, 2014, we did not have any derivatives designated as hedging instruments.

Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined under the weighted average cost method, and includes all costs in bringing the inventory to its present location and condition. The elements of costs include direct material, labor and allocable material and manufacturing overhead.

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

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

Impairment of non-current assets

Further disclosures relating to impairment of non-current assets are also provided in the following notes to the consolidated financial statements: Intangible assets (note 20) and Impairment of goodwill and other non-current assets (note 19).

We assess, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset s recoverable amount. An asset s recoverable amount is the higher of an asset s or CGU s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Our CGUs represent single entities with one component of business in each case. As of December 31, 2015, we had the following number of CGUs by segments for impairment testing purposes: Steel 9, Mining 7 and Power 2.

In assessing value in use, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. The estimated future cash flows expected to be generated by the asset, when the quoted market prices are not available, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. In determining fair value less costs of disposal, recent market transactions are taken into account.

We base our impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of our CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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For CGUs involved in mining activity future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers.

Impairment losses of continuing operations are recognized in the statement of profit (loss) and other comprehensive income (loss) in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, we estimate the asset s or CGU s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit (loss) and other comprehensive income (loss) unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as of December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of our group s cash management.

Provisions

General

Provisions are recognized when our group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation including legal or tax proceedings obligations and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit (loss) and other comprehensive income (loss).

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision

Mine rehabilitation costs will be incurred by us either while operating, or at the end of the operating life of, our facilities and mine properties. We assess our mine rehabilitation provision at each reporting date. Our group

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recognizes a rehabilitation provision where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation s location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Any reduction in the rehabilitation provision and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit (loss) and other comprehensive income (loss).

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of profit (loss) and other comprehensive income (loss) as part of finance costs.

For closed sites, changes to estimated costs are recognized immediately in the statement of profit (loss) and other comprehensive income (loss).

Environmental expenditures and liabilities

Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated. Generally, the timing of recognition of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Pensions and other post-employment benefits

Defined benefit pension and other post-retirement plans

We have a number of defined benefit pension plans that cover the majority of production employees. Benefits under these plans are primarily based upon years of service and average earnings. We account for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit (loss) and other comprehensive income (loss), so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan.

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

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognized directly in the statement of comprehensive income.

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

State pension fund

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

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported carrying amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Estimates and assumptions are continually evaluated and are based on our experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying our accounting policies, management has made the following judgments, which have the most significant effect on the amount recognized in the consolidated financial statements.

Abandoned Activity

As of January 1, 2014, Southern Urals Nickel Plant was recognized as abandoned activity according to a decision to close Southern Urals Nickel Plant without sale. In July 2013, we received an approval from the governmental authorities to abandon the industrial complex. The closure of Southern Urals Nickel Plant is aligned with the revised strategy aimed at restructuring the group s assets and development of its core businesses. As of December 31, 2015, the works related to closure of the plant are ongoing (see note 17) therefore we excluded the result of Southern Urals Nickel Plant from the continuing operations and reported them as discontinued operations for the year ended December 31, 2015 and prior periods.

Capitalization of Interest Related to the Elga Coal Deposit and Railway Construction

In 2013 and 2014, Elgaugol and Vnesheconombank signed credit agreements for financing of the Elga coal project approved by the Vnesheconombank s Supervisory Board in September 2013. The use of proceeds under these facilities is limited to the development of the Elga coal project. Borrowing costs under these facilities that are directly attributable to the construction of the Elga coal project are capitalized. Borrowing costs consist of interest including exchange differences arising from revaluation of foreign currency borrowings and other costs that we incur in connection with the debt servicing.

Railway Depreciation Method

In 2015, we commenced to depreciate the railway of the Elga coal deposit using units of production method. In applying the units of production method, depreciation is normally calculated based on produced and delivered tonnes in the period as a percentage of total expected tonnes to be produced and delivered in current and future periods over the Elga coal deposit life cycle. Our analysis has shown that the consumption of the economic benefits of the asset is linked to production and delivery of coal. We assess the total or ultimate railway capacity in tonnes at least at each financial year end and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Principal vs Agent Arrangements

We make significant judgment on gross or net revenue recognition. We evaluate the relevant facts and circumstances and take into consideration the following factors in determining whether to recognize revenue on a gross basis: (1) we have the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer; (2) we have inventory risk before or after the customer order, during shipping or on return; (3) we have latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and (4) we bear the customer s credit risk for the amount receivable from the customer.

Otherwise, revenues are reported net when our group performs as an agent or a broker without assuming the risks and rewards of ownership of goods. The evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity. In the situation when we act as a supplier and as a buyer with the same counterparty, we analyze the respective purchase and sales agreements to identify whether these transactions were concluded in contemplation with each other and, therefore, should be combined for accounting purposes deferring the revenue recognition to the point when the earnings process has culminated.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below or in the related accounting policy note. We based our assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of our group.

In particular, we have identified a number of areas where significant estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below.

Deferred Tax Assets and Uncertain Tax Positions

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits and the existence of taxable temporary differences (see note 21 to the consolidated financial statements). Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of profit (loss) and other comprehensive income (loss).

Impairment of Property, Plant and Equipment and Other Non-current Assets

We assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, we make an estimate of the asset s recoverable amount. An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm s length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, and other changes in circumstances that indicate that impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment (see note 19).

Impairment of Goodwill

We determine whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in note 19 to the consolidated financial statements.

Useful Lives of Items of Property, Plant and Equipment

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Mineral Reserves

Mineral reserves and the associated mine plans are a material factor in our computation of a depletion charge. Estimation of reserves involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgment and development of assumptions. Mine plans are periodically updated which can have a material impact on the depletion charge for the period. More details are provided in note 3(i) to the consolidated financial statements.

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see note 10 to the consolidated financial statements).

Provisions

We are subject to various legal proceedings, disputes and claims, including regulatory discussions related to our group s business, licenses, tax positions and the outcomes are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require us to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable (see note 23 to the consolidated financial statements).

Pensions and Other Post-employment Benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. More details are provided in note 24 to the consolidated financial statements.

Rehabilitation Provisions

We review rehabilitation provisions at each reporting date and adjust them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities. Rehabilitation provisions are recognized in the period in which they arise and are stated at the best estimate of the present value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation provision and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment (see note 18 to the consolidated financial statements).

Impairment of Financial Assets

We make allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

Determining Net Realizable Value of Inventories

We make write-downs for obsolete and slow-moving raw materials and spare parts. In addition, finished goods of our group are carried at net realizable value (see note 15 to the consolidated financial statements). Estimates of net realizable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

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For other judgments, estimates and assumptions and details refer to: Mineral licenses (note 3(i)), Property, plant and equipment (note 3(j)), Recovery of deferred tax assets (note 3(f)), Non-current assets held for sale and discontinued operations (note 3(h)), Inventories (note 3(p)), Impairment of non-current assets (note 3(q)), Pensions and other post-employment benefits (note 3(t)), Provisions (note 3(s)) and Fair value measurement (note 3(d)).

Standards issued but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to our group s operations were in issue but not yet effective.

The effect from the application of IFRS 9 Financial Instruments Classification and Measurement, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases and has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no material impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. We do not intend to adopt this standard before its effective date.

IAS 39 Financial Instruments: Recognition and Measurement Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the own use scope exception (see below when IFRS 9 will be applied).

IFRS 7 Financial Instruments: Disclosures Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 (see below when IFRS 9 will be applied).

IFRS 9 Financial Instruments Classification and Measurement. Finalized version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 will change the categories of financial assets to those that are carried at amortized cost and those that are carried at fair value. This will mainly affect the classification of our available for sale financial assets and held to maturity investments; and

- IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS

39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

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IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture. This amendment has no impact to us as we do not plan to make any sales or contribution of assets to our associates or joint ventures during the period (effective for annual periods beginning on or after January 1, 2016).

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures Amendments regarding the application of the consolidation exception by investment entities. This amendment has no impact to us as we are not an investment entity (effective for annual periods beginning on or after January 1, 2016).

IFRS 11 Joint Arrangements Amendments regarding the accounting for acquisitions of an interest in a joint operation. Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after January 1, 2016). This amendment has no impact to us as we do not plan to acquire an interest in joint operations.

IAS 1 Presentation of Financial Statements Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2016).

IAS 16 Property, Plant and Equipment and IAS 38 Intangibles Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment. This amendment has no impact to us as we do not use revenue-based methods to depreciate/amortize our non-current assets (effective for annual periods beginning on or after January 1, 2016).

IAS 7 Statement of Cash Flows Amendments resulting from the disclosure initiative. The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity s financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after January 1, 2017).

IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after January 1, 2018). We are currently in the process of assessing the impact of adoption of IFRS 15 on our consolidated financial statements.

IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16 s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after January 1, 2019). We are currently in the process of assessing the impact of adoption of IFRS 16 on our consolidated financial statements.

Annual Improvements to IFRSs 2012 2014 Cycle

The September 2014 Annual Improvements to IFRSs is a collection of amendments to IFRSs in response to four standards. These improvements are effective from January 1, 2016 and are not expected to have a material impact on our group. It includes the following amendments:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Changes in methods of disposal;

- IFRS 7 Financial Instruments: Disclosures Servicing contracts and Applicability of the amendments to IFRS 7 to condensed interim financial statements;

- IAS 19 Employee Benefits Discount rate: regional market issue; and

- IAS 34 Interim Financial Reporting Disclosure of information elsewhere in the interim financial report.

First-time Adoption of IFRS

The accompanying financial statements, for the year ended December 31, 2015, are the first we have prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2014. For periods up to and including the year ended December 31, 2014, we prepared our consolidated financial statements in accordance with U.S. GAAP.

Accordingly, we have prepared financial statements that comply with IFRS applicable as of December 31, 2015, together with the comparative period data for the year ended December 31, 2014, as described in the summary of significant accounting policies (see note 3 to the consolidated financial statements). In preparing the financial statements, our opening consolidated statement of financial position was prepared as of January 1, 2014, our date of transition to IFRS. This note explains the principal adjustments made by us in representing our U.S. GAAP financial statements, including the statement of financial position as of January 1, 2014 and the financial statements for the year ended December 31, 2014 in order to comply with IFRS.

The presentation currency of our consolidated financial statements is the Russian ruble. Before transition to IFRS, U.S. dollar was the presentation currency of our consolidated financial statements prepared under U.S. GAAP. The reason of adopting the Russian ruble as the presentation currency in the consolidated statements under IFRS is to allow a greater transparency of our financial and operating performance as it more closely reflects the profile of our revenue and operating income that are generated in Russian rubles. The U.S. GAAP financial information included in the consolidated financial statements as of January 1, 2014 and for the year ended December 31, 2014 previously reported in U.S. dollars has been converted into Russian rubles using the procedures outlined below:

- assets and liabilities denominated in currencies other than Russian ruble were translated into Russian rubles at the closing rates of exchange on the relevant balance sheet date;

- income and expenditure denominated in currencies other than Russian ruble were translated at the average rates of exchange prevailing for the relevant period; and

- the cumulative translation reserves were set to nil as of January 1, 2014, the date of transition to IFRS. Share capital, share premium and other reserves were translated at the historical rates, and subsequent rates prevailing on the date of each transaction.

As a first-time adopter of IFRS, we applied IFRS 1 First-time Adoption of International Financial Reporting Standards. The Standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS, which we have applied as of January 1, 2014.

We have applied the mandatory exceptions and certain optional exemptions as set out below:

Business combinations We have not applied IFRS 3 Business Combinations retrospectively to the business combinations that occurred before the date of transition to IFRS. As a result, assets recognized and liabilities assumed in the past business combinations under U.S. GAAP have remained unchanged at the date of transition, except for the changes described in the notes below.

Currency translation differences We have used the IFRS 1 exemption relating to IAS 21 The Effects of Changes in Foreign Currency Rates. As a result, the cumulative translation differences for all of our foreign operations were set to be zero at the date of transition. The gain or loss on a subsequent disposal of any foreign operations will include only exchange differences that arose after the date of transition.

Borrowing costs We have applied the transitional provisions in IAS 23 Borrowing Costs, and capitalize borrowing costs on qualifying assets after the date of transition, and where the construction was commenced as of and after the date of transition to IFRS according to IAS 23 Borrowing Costs. Borrowing costs capitalized under U.S. GAAP prior to the date of transition have not been adjusted.

Rehabilitation provision We have elected to use the IFRS 1 exemption relating to recognition of changes in the measurement of rehabilitation provision and therefore measure those in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as of January 1, 2014.

Pension obligations We have elected to recognize all cumulative actuarial gains and losses as at the date of transition in retained earnings. We are not required to re-compute the unrecognized portion of actuarial gains and losses from the inception of the defined benefit plans. Instead, we apply IAS 19 Employee Benefits from the date of transition. Therefore, at the date of transition, we recognize the pension obligations in accordance with IAS 19 Employee Benefits and no unrecognized actuarial gains and losses are presented at the transition date.

Estimates The estimates as of January 1, 2014 and December 31, 2014 are consistent with those made as of the same dates in accordance with U.S. GAAP apart from the estimates described above.

Changes in the presentation (CP) We changed the presentation of certain items in the consolidated statement of financial position and statement of profit (loss) and comprehensive income (loss) as compared to the presentation under the previously issued U.S. GAAP financial statements. The most significant changes in the presentation related to:

CP(1) Other accounts receivable (RUB 1,920 million as of January 1, 2014 and RUB 932 million as of December 31, 2014) are presented within Trade and other receivables in the consolidated statement of financial position. Under U.S. GAAP, we reflected Other accounts receivable within Other current assets.

CP(2) Income tax receivable (RUB 2,936 million as of January 1, 2014 and RUB 578 million as of December 31, 2014) is presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Prepayments and other current assets.

CP(3) Other current financial assets (RUB 360 million as of January 1, 2014 and RUB 186 million as of December 31, 2014) are presented as a separate item in the consolidated statement of financial position. Under U.S. GAAP, Other current financial assets were reflected within Prepayments and other current assets.

CP(4) Interest payable (RUB 2,051 million as of January 1, 2014 and RUB 14,615 million as of December 31, 2014) is presented as part of Interest-bearing loans and borrowings in the consolidated statement of financial position. Under U.S. GAAP, Interest payable was reflected within Accrued expenses and Other current liabilities.

CP(5) Rehabilitation provision (non-current portion of RUB 1,655 million and current portion of RUB 66 million as of January 1, 2014, non-current portion of RUB 2,459 million and current portion of RUB 195 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Rehabilitation provision was presented as a separate item.

CP(6) Provision for taxes other than income tax (RUB 521 million as of January 1, 2014 and RUB 769 million as of December 31, 2014) is included in Provisions in the consolidated statement of financial position. Under U.S. GAAP, Provision for taxes other than income tax was reflected within Taxes and social charges payable.

CP(7) Accrual for unused vacation (RUB 1,618 million as of January 1, 2014 and RUB 1,651 million as of December 31, 2014) is presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, it was presented within Accrued expenses and other current liabilities.

CP(8) Dividends payable (RUB 108 million as of January 1, 2014 and RUB 104 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, Dividends payable were reflected as a separate item.

CP(9) Other current liabilities (RUB 7,233 million as of January 1, 2014 and RUB 27,989 million as of December 31, 2014) are presented within Trade and other payables in the consolidated statement of financial position. Under U.S. GAAP, they were reflected as a separate item.

CP(10) Provision for taxes and other provisions (RUB 325 million as of January 1, 2014 and RUB 1,285 million as of December 31, 2014) are presented within Provisions in the consolidated statement of financial position. Under U.S. GAAP, they were reflected within Accrued expenses and other current liabilities.

CP(11) Income tax payable (RUB 594 million as of January 1, 2014 and RUB 1,272 million as of December 31, 2014) is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, Income tax payable was reflected within Taxes and social charges payable. Long-term income tax payable in the amount of RUB 3,447 million as of December 31, 2014 is included in a separate item in the consolidated statement of financial position. Under U.S. GAAP, it was reflected within Other non-current liabilities.

CP(12) We adopted net presentation of the input and output VAT on advances against advances issued and received for the purpose of harmonization with the RAS. Under U.S. GAAP, we presented advances and related VAT on advances in gross amounts. The effect of the changes was as follows:

- As of the date of transition to IFRS, it resulted in the decrease in advances received from related parties of RUB 71 million, decrease in advances issued and VAT on advances received included in Other current assets line in the amount of RUB 623 million, decrease in advances received of RUB 302 million and decrease in VAT on advances issued within Tax payable other than income tax of RUB 392 million; and

- As of December 31, 2014, it resulted in the decrease in advances issued and VAT on advances received included in Other current assets in the amount of RUB 536 million, decrease in Advances received of RUB 292 million and VAT on advances within Tax payable other than income tax of RUB 244 million.

CP(13) Other operating income is presented as a separate item (RUB 851 million for the year ended December 31, 2014) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected within Administrative and other operating expenses, net.

CP(14) We presented Other non-current financial assets in a separate line in the statement of financial position. Under U.S. GAAP financial statements, these assets were included in Other non-current assets in the amount of RUB 201 million and RUB 59 million as of December 31, 2014 and January 1, 2014, correspondingly. Investments in associates are presented within Other non-current financial assets. Under U.S. GAAP, they were reflected within Investments in associates (RUB 72 million as of December 31, 2014).

CP(15) We present provisions for legal claims (RUB 367 million as of January 1, 2014 and RUB 36 million as of December 31, 2014) as part of Provisions. Under U.S. GAAP, they were reflected within Other payables.

CP(16) Other income and Other expenses are presented as separate lines (RUB 684 million and RUB 1,486 million for the year ended December 31, 2014, respectively) in the consolidated statement of profit (loss) and other comprehensive income (loss). Under U.S. GAAP, it was reflected together.

Additionally, certain reclassifications have been made to the December 31, 2014 consolidated statement of financial position to conform to the current year presentation. Such reclassifications affect the presentation of certain items in the consolidated statement of financial position, and have no impact on net income or equity of our group.

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Adjustments, reclassifications and remeasurement made in order to comply with IFRS

Property, plant and equipment and mineral licenses Our property, plant and equipment and mineral licenses are recorded at historical cost of acquisition. To arrive at IFRS historical cost we used the historical cost of property, plant and equipment and mineral licenses in accordance with U.S. GAAP as we believe that it reasonably approximates historical values in accordance with IFRS, and adjusted it through retrospective application of the requirements of IAS 16 Property, Plant and Equipment, IAS 36 Impairment of Assets and IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities as described in notes C, E, F below.

A Debt issuance costs

In accordance with IFRS, fees paid on origination of loan facilities are recognized as transaction costs which are deducted from outstanding debt and are amortized using the effective interest rate method. Under U.S. GAAP, debt issuance costs were capitalized as a separate asset and included in Other current or non-current assets and then amortized using the effective interest rate method. The amounts reclassified from other current and non-current assets to remeasure debt liabilities in order to comply with IFRS requirements comprised RUB 2,766 million (current portion of RUB 2,743 million and non-current portion of RUB 23 million) and RUB 4,409 million (current portion of RUB 1,730 million and non-current portion of RUB 2,679 million) as of December 31, 2014 and January 1, 2014, respectively. The differences in effective interest rate method calculations under IFRS and U.S. GAAP resulted in a RUB 1,051 million decrease in the balance of Interest-bearing loans and borrowings and corresponding decrease in Foreign exchange gain (loss), net in the consolidated statement of profit (loss) and other comprehensive income (loss).

B Exchange differences

Under U.S. GAAP, we recognized exchange differences on foreign operations in a separate component of equity. Exchange differences for all foreign operations are deemed to be zero as at the date of transition in order to comply with IFRS requirements. A reclassification in equity from Accumulated other comprehensive income (loss) to Accumulated losses of RUB 13,568 million was made as of January 1, 2014.

C Rehabilitation provision expenses

According to U.S. GAAP, rehabilitation provision (asset retirement obligations) was measured based on the estimated cost of rehabilitation, discounted to its net present value upon recognition. Adjustments to discount rate were not reflected in the provisions under U.S. GAAP unless there was an upward revision in the future cost estimates. We have taken the exemption and applied IFRIC 1 Changes in the Existing Decommissioning, Restoration and Similar Liabilities; correspondingly, the rehabilitation provision as of January 1, 2014 was revalued using current discount rate as of that date. In the subsequent periods, the rehabilitation provision was remeasured using the current discount rate as of the end of each reporting period. This resulted in the following differences between rehabilitation provision recorded in the consolidated financial statements under IFRS and amounts reported under U.S. GAAP:

As of January 1, 2014: increase in Current rehabilitation provision in the amount of RUB 31 million, increase in Non-current rehabilitation provision in the amount of RUB 2,433 million, increase in Property, plant and equipment in the amount of RUB 1,057 million;

As of December 31, 2014: increase in Current rehabilitation provision in the amount of RUB 6 million, increase in non-current rehabilitation provision in the amount of RUB 539 million, decrease in Property, plant and equipment in the amount of RUB 637 million; increase in assets and liabilities classified as held for sale in the amount of RUB 170 million;

Accretion expense is presented within Finance costs under IFRS. Under U.S. GAAP, it was presented as a separate line Accretion expenses. Accretion expense amounted to RUB 191 million under U.S. GAAP and RUB 256 million under IFRS for the period ended December 31, 2014; and

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The difference in Rehabilitation provision methodology between U.S. GAAP and IFRS as described above resulted in the increase in Loss from discontinued operations related to Southern Urals Nickel Plant in the amount of RUB 264 million under U.S. GAAP for the year ended December 31, 2014 (see note 17 to the consolidated financial statements).

D Actuarial gains and losses

At the date of transition to IFRS, we recognized actuarial gain/loss accumulated in prior period in retained earnings. Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is amended and are not allowed to be spread over any future service period, which may create volatility in profit or loss whereas prior service cost is recognized in other comprehensive income/(loss) under U.S. GAAP at the date the plan amendment is adopted and then amortized into income over the participants remaining years of service, service to full eligibility date, or life expectancy, depending on the facts and circumstances. Finally, U.S. GAAP requires a pension contribution tax to be recognized as a component of net benefit cost in the period in which the contribution is made. Under IFRS, taxes related to benefit plans are included in the calculation of the benefit obligation. All aforementioned differences resulted in the following adjustments:

As of January 1, 2014: increase in Current pension obligations and decrease in Non-current pension obligations amounted to RUB 215 million and RUB 74 million, respectively;

As of December 31, 2014: increase in Current pension obligations and Non-current pension obligations amounted to RUB 22 million and RUB 57 million, respectively;

Actuarial gains and losses under our defined benefit plans of RUB 696 million were recycled from other comprehensive income/loss to accumulated losses as of January 1, 2014; and

Administrative and other operating expenses increase in the amount of RUB 195 million for the period ended December 31, 2014.

E Impairment of non-current assets and goodwill

Under U.S. GAAP, goodwill is tested for impairment by using a two-step approach. Under the first step, the fair value of a reporting unit is compared to its carrying value. A reporting unit is the level, at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit s goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit s assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

Under IFRS, impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm s length for similar assets or observable market prices less incremental costs for disposing of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

We recognized differences related to impairment of non-current assets other than goodwill property, plant and equipment and mineral licenses.

Under U.S. GAAP requirements, in the first step of impairment testing, the carrying value of non-current assets is compared to the undiscounted cash flows of reporting unit, and only if the carrying amount exceeds the undiscounted cash flows, the second step is performed where the carrying amount is compared to the discounted cash flows. Under IFRS requirements impairment is determined by comparison of the carrying amount to the recoverable amount, which is determined through the use of discounted cash flows. This difference in requirements resulted in the difference in impairment testing of non-current assets of two CGUs Bluestone companies and Ekos-plus as of January 1, 2014. According to the first step of impairment testing under U.S. GAAP no excess of the carrying value over the undiscounted cash flows was identified, therefore the second step of testing was not performed, and no impairment of non-current assets was recognized. As a result of the impairment test in accordance with IAS 36 Impairment of Assets, excess of the carrying value over the recoverable amount was identified for Bluestone companies in the amount of RUB 40,491 million including impairment of property, plant and equipment of RUB 4,185 million and mineral licenses of RUB 54,862 million, and the respective effect on deferred taxes of RUB 18,556 million; and for Ekos-plus in the amount of RUB 51 million related to property, plant and equipment as of January 1, 2014.

As of December 31, 2014, Bluestone companies were recognized as disposal group classified as held for sale in the consolidated financial statements under IFRS as well as under U.S. GAAP. In the both sets of consolidated financial statements net assets of Bluestone companies were written down to fair value less cost to sell and as of December 31, 2014 there is no difference in the carrying value of Bluestone companies non-current assets between IFRS and U.S. GAAP. A difference arose in the amount of impairment loss recognized by us in respect of Bluestone companies in the year ended December 31, 2014, as, under IFRS, impairment was partially recognized at the date of transition, whereas in the U.S. GAAP financial statements, the total amount of impairment loss was recognized by us in the year ended as of December 31, 2014. The difference in Profit (loss) after tax from discontinued operations, net for the year ended December 31, 2014 amounted to RUB 69,424 million. This difference also affected Other comprehensive income (loss) as impairment was recognized in different periods under IFRS and under U.S. GAAP effect on currency translation adjustment comprised RUB 28,933 million in the year ended December 31, 2014.

Other difference between IFRS and U.S. GAAP requirements relates to the reversal of previously recognized impairment loss. If there is a change in estimates used to determine the recoverable amount, previously recognized impairment loss of property, plant and equipment can be reversed under IFRS whereas no such reversal is allowed according to U.S. GAAP requirements. This difference has affected the value of non-current assets of Donetsk Electrometallurgical Plant. According to U.S. GAAP, we recognized impairment loss in the consolidated financial statements as of June 30, 2013. The recoverable value was determined on binding offer from a third party. As of December 31, 2013, the recoverable value of Donetsk Electrometallurgical Plant has increased. According to U.S. GAAP previously identified impairment loss was not reversed. As of January 1, 2014, according to IFRS requirements we partially reversed impairment loss previously recognized in the amount of RUB 477 million. Due to the difference in the carrying value of Donetsk Electrometallurgical Plant s non-current assets as of January 1, 2014, the difference in impairment loss recognized during the period ended December 31, 2014 arose in the consolidated financial statement under IFRS as compared to those previously prepared in accordance with U.S. GAAP in the amount of RUB 258 million.

F Negative goodwill

In accordance with U.S. GAAP (ASC 805 Business combination), we recognized negative goodwill which arose on our business combinations carried out before January 1, 2009 as deferred credit for an excess of net assets acquired over cost and allocated it to the acquired non-current assets, except for the deferred taxes. In order to comply with IFRS, we derecognized the carrying amount of that deferred credit at the transition date.

As of the date of transition to IFRS, this difference affected Inventories (increase of RUB 189 million), Property, plant and equipment (increase of RUB 3,950 million), Mineral licenses (decrease of RUB 433 million), Deferred tax liabilities (increase of RUB 437 million);

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As of December 31, 2014, this difference affected Inventories (increase of RUB 185 million), Property, plant and equipment (increase of RUB 2,449 million), Mineral licenses (decrease of RUB 393 million), Deferred tax liabilities (increase of RUB 163 million);

For the year ended December 31, 2014, this difference affected Cost of goods sold (increase of RUB 444 million); and

For the year ended December 31, 2014, this difference affected Impairment of goodwill and other non-current assets (increase of RUB 973 million).

G Discontinued operations

In accordance with U.S. GAAP, we recognized and presented Bluestone companies as disposal group held for sale as of January 1, 2014 in the comparative information to our consolidated financial statements for the year ended December 31, 2014 when criteria for recognition of Bluestone companies as disposal group held for sale were met. Under IFRS, we also recognized Bluestone companies as asset held for sale as of December 31, 2014. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, reclassification of comparative information in the statement of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented is not required, therefore we did not amend the presentation of our assets and liabilities in the comparative statement of financial position as of January 1, 2014. The effect of changes related to discontinued operations presentation made to comply with IFRS requirements, is presented in a separate column in the table below.

We recognized several subsidiaries as discontinued operations in our previously issued U.S. GAAP consolidated financial statements as of December 31, 2013: Toplofikatsia Rousse, Invicta Merchant Bar, Lomprom Rostov, Tikhvin Ferroalloy Plant, Voskhod-Oriel, Voskhod-Chrome and Voskhod-Trading. These subsidiaries do not meet IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requirements to be recognized as discontinued operations as they do not represent a separate major line of business or geographical area of operations. We disposed of all these subsidiaries before December 31, 2013, and residual income and expenses related to these operations were presented as discontinued operations in the U.S. GAAP consolidated financial statements for the year ended December 31, 2014. In these financial statements prepared under IFRS we present these income and expenses as part of continuing operations. This resulted in the following adjustments to the U.S. GAAP amounts: increase in Revenue of RUB 126 million, increase in Cost of goods sold of RUB 140 million, increase in Allowance for doubtful accounts of RUB 567 million, and increase in Administrative and other operating expenses of RUB 204 million, and respective decrease in Loss from discontinued operations of RUB 785 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS as compared to the consolidated statement of operations under U.S. GAAP for the period ended December 31, 2014.

H Inventory provision

We recalculated net realizable value provision in order to comply with IAS 2 Inventories requirements. This resulted in the increase in the Inventories balance in the amount of RUB 166 million as of January 1, 2014 and RUB 193 million as of December 31, 2014, and decrease in Cost of goods sold of RUB 31 million for the year ended December 31, 2014.

I Borrowing costs

We recalculated borrowing costs capitalized in accordance with IFRS requirements. The effect of recalculations resulted in the increase in Property, plant and equipment in the amount of RUB 1,194 million as of December 31, 2014 in the consolidated statement of the financial position under IFRS as compared to U.S. GAAP and decrease in Finance costs of RUB 337 million and Foreign exchange gain/loss, net of RUB 857 million in the consolidated statements of profit (loss) and comprehensive income (loss) under IFRS compared to the consolidated statement of operations under U.S. GAAP.

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J Classification of liabilities

As of January 1, 2014, we were not in compliance with certain covenants under various credit facilities entered into with several lenders, including certain financial ratios, such as an EBITDA to Net Interest Expense and a Net Debt to EBITDA ratios. In April-May 2014, the lenders provided their consent to waive all breaches. According to U.S. GAAP requirements, when breach of covenants exists at the end of reporting period and lender agrees after the reporting period and before authorization of the financial statements for the issue not to demand the repayment, long-term credit facilities can be classified as non-current. In accordance with IFRS, such credit facilities shall be presented as current at the reporting date, unless waivers were received from lenders before the reporting date. As we received consent from the lenders after the reporting date, all corresponding liabilities are presented by us as current as of January 1, 2014. These liabilities included loans and borrowings for which covenants were breached, and also finance leases and other payables under contracts with cross-default clauses linked to those loans. The effect of this difference was as follows as of January 1, 2014:

Non-current interest-bearing loans and borrowings in the amount of RUB 220,884 million were reclassified to current;

Non-current finance lease liabilities in the amount of RUB 6,744 million were reclassified to current;

Accounts payable under contracts with breached cross-default provisions in the amount of RUB 7,329 million were reclassified to current from non-current liabilities as of January 1, 2014; and

As non-current payables were discounted in the U.S. GAAP consolidated financial statements, additional effect of unwinding the discount was recognized by us in the IFRS financial statements, with an increase of RUB 2,017 million recognized in Trade and other payables line and decrease in Finance costs for the year ended December 31, 2014 in the amount of RUB 2,241 million.

K Deferred taxes

Deferred tax assets and liabilities are treated as non-current under IFRS. Netting is performed for deferred tax assets and liabilities relating to income taxes levied by the same taxation authority on the same taxable entity where we have a legally enforceable right to set off current tax assets against current tax liabilities. Under U.S. GAAP, the deferred tax balances were calculated by applying the currently enacted statutory tax rate in each jurisdiction applicable to the period in which the temporary differences between the carrying amounts and tax base (both in respective local currencies) of assets and liabilities are expected to reverse. Deferred tax assets in the amount of RUB 5,132 million as of December 31, 2014 (January 1, 2014: RUB 1,144 million) and deferred tax liabilities in the amount of RUB 444 million as of December 31, 2014 (January 1, 2014: RUB 1,236 million) were recognized as current under U.S. GAAP. Under IFRS, deferred taxes have been recalculated based on the IFRS net book values of assets and liabilities and are presented as non-current. Deferred tax assets and deferred tax liabilities were offset in the amounts of RUB 7,799 million as of December 31, 2014 (RUB 793 million as of January 1, 2014).

The main differences in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under U.S. GAAP were due to the following:

Decrease in deferred tax liabilities of RUB 18,556 million related to impairment of Bluestone companies recognized in the IFRS financial statements as of January 1, 2014 (refer to note E Impairment of non-current assets and goodwill above);

Decrease in deferred tax liabilities of RUB 266 million as of January 1, 2014 and RUB 236 million as of December 31, 2014, due to changes in rehabilitation provision (refer to note C Rehabilitation provision expenses above);

Increase in deferred tax liabilities of RUB 437 million and RUB 163 million related to differences in the carrying values of property, plant and equipment and mineral licenses (refer to note F Negative goodwill above); and

Changes in debt issuance costs under IFRS and U.S. GAAP (refer to note A Debt issuance costs above) resulted in difference between U.S. GAAP and IFRS deferred taxes of RUB 208 million as of December 31, 2014.

The aggregate decrease in deferred tax benefit of RUB 361 million for the year ended December 31, 2014 is the result of all adjustments described in the notes A-L and N.

L Retained earnings and Non-controlling interest

Adjustments and remeasurements made by us as of January 1, 2014 in order to comply with IFRS requirements resulted in the increase in Accumulated deficit by RUB 52,781 million. This also had effect on net assets of subsidiaries and respective non-controlling interests.

M The consolidated statement of cash flows

M1 Under IFRS, Finance income is reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M2 Under IFRS, Finance costs are reflected as a separate item within Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities.

M3 Under IFRS, Interest received is reflected as a separate item within Changes in working capital.

M4 Under IFRS, Interest paid is reflected as a separate item within Changes in working capital.

M5 Under IFRS, Income taxes paid are reflected as a separate item within Changes in working capital.

M6 Under IFRS, Interest paid, capitalized is presented as a separate item. Under U.S. GAAP, it was reflected within Purchases of property, plant and equipment.

M7 Under IFRS, overdrafts are accounted for as cash equivalents. Under U.S. GAAP, cash flows from overdrafts were included in cash flows from financing activity on a net basis.

N Former related parties

Under U.S. GAAP (ASC 810 Consolidation), we determined certain Russian and foreign metallurgical plants and trading companies, which were formerly part of the Estar Group or controlled by the Estar Group shareholders (the **former Estar metallurgical plants**) as Variable Interest Entities (VIEs). We are not the primary beneficiary of the former Estar metallurgical plants, and the former Estar metallurgical plants were defined as related parties in previously issued U.S. GAAP consolidated financial statements as of December 31, 2014 and January 1, 2014. While under IFRS 12 Disclosure of Interests in Other Entities, an interest in an unconsolidated structured entity as defined by held by a reporting entity does not make the structured entity a related party to the reporting entity unless it would otherwise meet the definition of a related party (e.g. because the structured entity is an associate of the reporting entity). Accordingly, in the accompanying consolidated financial statements, the former Estar metallurgical plants are recognized as third parties. The main effects of this difference were as follows:

As of January 1, 2014, this difference affected Trade and other receivables (increase of RUB 1,138 million), Amounts due from related parties, net of allowance (decrease of RUB 1,574 million), Other current assets (increase of RUB 436 million), Trade and other payables (increase of RUB 2,476 million) and Amounts due to related parties (decrease of RUB 2,476 million);

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As of December 31, 2014, this difference affected Trade and other receivables (increase of RUB 379 million), Amounts due from related parties, net of allowance (decrease of RUB 379 million), Trade and other payables (increase of RUB 828 million) and Amounts due to related parties (decrease of RUB 828 million);

This difference affected Allowance for doubtful accounts (increase of RUB 1,696 million) and Provision for amounts due from related parties (decrease of RUB 1,696 million) for the year ended December 31, 2014.

Other adjustments made by us to the U.S. GAAP amounts in order to meet IFRS requirements, which are not described above were insignificant.

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Reconciliation of equity as of January 1, 2014 (date of transition to IFRS):

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)(1)	U.S. GAAP component classified as discontinued	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Assets							
Current Assets							
Cash and cash equivalents		272,936	8,927	52			8,979
Trade and other receivables	N, CP(1)	587,999	19,242	177	1,920	1,138	22,477
Due from related parties, net of allowance	N, CP(12)	56,792	1,859		(71)	(1,592)	196
U.S. GAAP Deferred income taxes	K	25,092	821	323		(1,144)	
Inventories	F, H	1,407,868	46,044	177		408	46,629
Income tax receivables	CP(2)				2,936		2,936
Other current financial assets	CP(3)				360		360
Other current assets	A, N, CP(1)-(3), CP(12)	439,624	14,327	94	(5,839)	(1,357)	7,225
U.S. GAAP Current assets of discontinued operations	G	25,159	823	(823)			
Total current assets		2,815,470	92,043		(694)	(2,547)	88,802
Non-current assets							
Property, plant and equipment	C, E, F	6,726,116	220,107	4,772		1,374	226,253
Mineral licenses	E, F	1,293,470	42,334	64,724		(55,331)	51,727
Non-current financial assets	CP(14)	14,787	484		59		543
Investment in associates		7,604	249			2	251
Deferred tax assets	K	5,066	166			351	517
Goodwill		687,763	22,510			10	22,520
Other non-current assets	A, CP(14)	127,861	4,184	1,080	(59)	(2,724)	2,481
U.S. GAAP Non-current assets of	G	2,156,373	70,576	(70,576)			

discontinued operations					
Total non-current assets	11,019,040	360,610		(56,318)	304,292
Total assets	13,834,510	452,653	(694)	(58,865)	393,094

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)[1]	U.S. GAAP component classified as discontinued	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Equity and liabilities							
Current liabilities							
Interest-bearing loans and borrowings	A, J, CP(4)	1,478,154	48,297	221	2,051	216,509	267,078
Trade and other payables	J, N, CP(7), CP(8), CP(9), CP(15)	929,375	30,393	956	8,757	11,867	51,973
Advances received	CP(12)	140,919	4,566		(302)	25	4,289
Due to related parties	N	106,943	3,500			(2,476)	1,024
Provisions	C, CP(6), CP(10), CP(15)	2,001	65	213	1,213	40	1,531
Pension obligations	D	18,578	607	59		211	877
Finance lease liabilities	J	122,754	4,018	2		6,789	10,809
Income tax payable	CP(11)	78,332	2,560		594	19	3,173
Tax payable other than income tax	CP(6), CP(11), CP(12)	264,861	8,672	440	(1,672)		7,440
U.S. GAAP Dividends payable	CP(8)	3,293	108		(108)		
U.S. GAAP Deferred income taxes	K	37,775	1,236			(1,236)	
U.S. GAAP Accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	343,457	11,241		(11,227)	(14)	
U.S. GAAP Current liabilities of discontinued operations	G	57,781	1,891	(1,891)			
Other current liabilities						29	29

Total current liabilities	3,584,223	117,154		(694)	231,764	348,224

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)[1]	U.S. GAAP component classified as discontinued	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Non-current liabilities							
Interest-bearing loans and borrowings	A, J	7,513,277	245,904	227		(220,880)	25,251
Provisions	C	50,567	1,655	215		2,433	4,303
Pension obligations	D	104,525	3,412	1,552		(61)	4,903
Finance lease liabilities	J	296,875	9,717			(6,744)	2,973
Deferred tax liabilities	K	506,241	16,569	18,871		(17,965)	17,475
Other non-current liabilities	J	293,370	9,601	1,181		(7,330)	3,452
U.S. GAAP Long-term liabilities of discontinued operations	G	673,591	22,046	(22,046)			
Due to related parties		21	1			(1)	
Total non-current liabilities		9,438,467	308,905			(250,547)	58,358
Total liabilities		13,022,690	426,059		(694)	(18,783)	406,582
Equity							
Common shares		133,507	4,163				4,163
Preferred shares		25,314	833				833
Additional paid-in capital		834,118	25,591				25,591
Accumulated other comprehensive income (loss)	B, D	(47,601)	(12,844)			12,833	(11)
Accumulated deficit	B, D, L	(427,863)	(783)			(52,781)	(53,564)
Equity attributable to equity shareholders of Mechel PAO		517,475	16,960			(39,948)	(22,988)
Non-controlling interests	L	294,345	9,634			(134)	9,500
Total equity		811,820	26,594			(40,082)	(13,488)
Total equity and liabilities		13,834,510	452,653		(694)	(58,865)	393,094

(1) At exchange rates from the U.S. dollar to the Russian ruble as of January 1, 2014. The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at comparative U.S. GAAP amounts in Russian rubles.

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Reconciliation of equity as of December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)(1)	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Assets						
Current Assets						
Cash and cash equivalents		70,800	3,983			3,983
Trade and other receivables	N, CP(1)	330,371	18,586	932	291	19,809
Due from related parties, net of allowance	N	9,303	523		(385)	138
U.S. GAAP Deferred income taxes	K	91,223	5,132		(5,132)	
Inventories	F, H	640,671	36,043		294	36,337
Income tax receivables	CP(2)			578		578
Other current financial assets	CP(3)			186		186
Other current assets	A, CP(1)-(3), CP(12)	238,314	13,407	(1,918)	(2,739)	8,750
U.S. GAAP Current assets of discontinued operations	C, G	151,602	8,529		(8,529)	
Total current assets		1,532,284	86,203	(222)	(16,200)	69,781
Assets of disposal group classified as held for sale	C, G				8,696	8,696
Non-current assets						
Property, plant and equipment	C, F, I	3,944,427	221,266		3,033	224,299
Mineral licenses	F	719,951	40,503		(381)	40,122
Non-current financial assets	CP(14)	4,060	216	273		489
Investments in associates	CP(14)	6,142	346	(72)		274
Deferred tax assets	K	72,966	4,105		(2,667)	1,438
Goodwill		403,207	22,684		13	22,697
Other non-current assets	A, CP(14)	30,453	1,713	(201)	(50)	1,462
Total non-current assets		5,181,206	290,833		(52)	290,781
Total assets		6,713,490	377,036	(222)	(7,556)	369,258

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)[(1)]	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Equity and liabilities						
Current liabilities						
Interest-bearing loans and borrowings	A, CP(4)	6,678,549	375,725	14,615	(3,821)	386,518
Trade and other payables	N, CP(7), CP(8), CP(9), CP(15)	537,004	30,211	30,476	806	61,493
Advances received	CP(12)	81,599	4,591	(292)	(15)	4,284
Due to related parties	N	15,494	872		(828)	44
Provisions	C, CP(6), CP(10)	3,478	196	1,928	6	2,130
Pension obligations	D	18,656	1,050		22	1,072
Finance lease liabilities		270,980	15,245		(32)	15,213
Income tax payable	CP(11)	31,444	1,769	1,272	(8)	3,033
Tax payable other than income tax	CP(6), CP(11), CP(12)	215,251	12,110	(2,489)	26	9,647
U.S. GAAP Dividends payable	CP(8)	1,843	104	(104)		
U.S. GAAP Deferred income taxes	K	7,893	444		(444)	
U.S. GAAP Accrued expenses and other current liabilities	CP(4), CP(7), CP(9), CP(10)	811,345	45,645	(45,628)	(17)	
U.S. GAAP Current liabilities of discontinued operations	C, G	150,033	8,441		(8,441)	
Other current liabilities					36	36

Total current liabilities		8,823,569	496,403	(222)	(12,709)	483,472
Liabilities of disposal group classified as held for sale	C, G				8,607	8,607

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)(1)	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Non-current liabilities						
Interest-bearing loans and borrowings	A	166,532	9,369		(23)	9,346
Provisions	C	43,712	2,459		539	2,998
Pension obligations	D	60,222	3,388		57	3,445
Finance lease liabilities		2,813	158		(12)	146
Deferred tax liabilities	K	179,987	10,126		(7,073)	3,053
Other non-current liabilities	CP(11)	81,288	4,557	(3,447)	45	1,155
Due to related parties	G	38	2		(2)	
Income tax payable	CP(11)			3,447		3,447
Total non-current liabilities		534,592	30,059		(6,467)	23,592
Total liabilities		9,358,161	526,462	(222)	(10,569)	515,671
Equity						
Common shares		133,507	4,163			4,163
Preferred shares		25,314	833			833
Additional paid-in capital		834,136	25,591		1	25,592
Accumulated other comprehensive income (loss)	B, D, E	972,381	17,162		(16,144)	1,018
Accumulated deficit	B, D, E, L	(4,763,413)	(205,805)		19,533	(186,272)
Equity attributable to equity shareholders of Mechel PAO		(2,798,075)	(158,056)		3,390	(154,666)
Non-controlling interests	L	153,404	8,630		(377)	8,253
Total equity		(2,644,671)	(149,426)		3,013	(146,413)
Total equity and liabilities		6,713,490	377,036	(222)	(7,556)	369,258

(1) At exchange rate of 56.2584 as of December 31, 2014. The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at comparative U.S. GAAP amounts in Russian rubles.

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Reconciliation of consolidated statements of profit (loss) and comprehensive income (loss) for the year ended December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)[1]	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Continuing operations						
Revenue	G	6,405,767	243,893		99	243,992
Cost of goods sold	G, F, H	(4,031,657)	(152,546)		(511)	(153,057)
Gross profit		2,374,110	91,347		(412)	90,935
Selling and distribution expenses		(1,460,641)	(55,599)		(62)	(55,661)
Loss on write-off of property, plant and equipment		(17,395)	(661)			(661)
Impairment of goodwill and other non-current assets	E, F	(120,237)	(6,764)		(1,232)	(7,996)
Allowance for doubtful accounts	G, N	(37,968)	(1,459)		(2,212)	(3,671)
Taxes other than income taxes		(172,447)	(6,442)		(27)	(6,469)
Allowance for amounts due from related parties	N	(41,425)	(1,823)		1,697	(126)
Administrative and other operating expenses	C, F, D, CP(13)	(392,606)	(14,946)	(851)	(518)	(16,315)
Other operating income	CP(13)			851		851
U.S. GAAP Accretion expenses	C	(4,963)	(191)	191		
Total selling, distribution and operating expenses, net		(2,247,682)	(87,885)	191	(2,354)	(90,048)
Operating profit (loss)		126,428	3,462	191	(2,766)	887
Finance income		2,398	88		19	107
Finance costs	C, J, I	(793,228)	(30,532)	(191)	2,613	(28,110)
Foreign exchange gain/loss, net	A, I	(2,396,123)	(105,129)		1,953	(103,176)
Share of profit of associates		276	10		(3)	7
Other income	CP(16)			684		684
Other expenses	CP(16)	(9,613)	(796)	(684)	(6)	(1,486)
Total other income and (expense), net		(3,196,290)	(136,359)	(191)	4,576	(131,974)
Loss before tax from continuing operations		(3,069,862)	(132,897)		1,810	(131,087)
Income tax benefit	K	183,908	9,187		(365)	8,822
		(2,885,954)	(123,710)		1,445	(122,265)

Loss for the year from continuing operations	

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	Notes	U.S. GAAP (In thousands of U.S. dollars)	U.S. GAAP (In millions of Russian rubles)(1)	Changes in the presentation	Adjustments and reclassifications / remeasurements	IFRS
Discontinued operations						
Loss after tax for the year from discontinued operations, net	G, E	(1,473,780)	(82,231)		70,529	(11,702)
Loss for the year		(4,359,734)	(205,941)		71,974	(133,967)
Attributable to:						
Equity holders of the parent		(4,335,426)	(205,007)		72,303	(132,704)
Non-controlling interests	L	(24,308)	(934)		(329)	(1,263)
U.S. GAAP Less: Dividends on preferred shares		(124)	(7)			(7)
U.S. GAAP Net (loss) income attributable to common shares of Mechel PAO		(4,335,550)	(205,014)		72,303	(132,711)
Other comprehensive income (loss)		925,222	30,306		(29,136)	1,170
Other comprehensive income to be reclassified to profit or loss in subsequent periods	E	925,222	30,306		(29,136)	1,170
Exchange differences on translation of foreign operations		923,929	30,304		(29,136)	1,168
Exchange differences on translation of disposal of subsidiaries						
Net gain on available for sale financial assets		1,293	2			2
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		(21,889)	(302)		175	(127)
Remeasurement losses on defined benefit plans	D	(21,889)	(302)		175	(127)
Other comprehensive income for the year, net of tax		903,333	30,004		(28,961)	1,043
Total comprehensive loss for the year, net of tax		(3,456,401)	(175,937)		43,013	(132,924)
Attributable to:						
Equity holders of the parent		(3,432,093)	(175,003)		43,328	(131,675)
Non-controlling interests		(24,308)	(934)		(315)	(1,249)

(1)

The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from the functional currency to the U.S. dollar.

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Reconciliation of consolidated statement of cash flows for the year ended December 31, 2014:

	Notes	U.S. GAAP (In thousands of U.S. dollars)(1)	U.S. GAAP (In millions of Russian rubles)	Adjustments and reclassifications / remeasurements	IFRS
Cash Flows from Operating Activities					
Net loss(2)		(4,359,734)	(205,941)	71,974	(133,967)
Profit (loss) from discontinuing operations, net of income tax		1,473,780	82,231	(70,529)	11,702
Net loss from continuing operations		(2,885,954)	(123,710)	1,445	(122,265)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:					
Finance income	M1			(107)	(107)
Finance costs	M2			28,110	28,110
Other adjustments		2,739,002	118,978	(1,445)	117,533
Changes in working capital items:					
Interest received	M3			22	22
Interest paid	M4			(14,963)	(14,963)
Income taxes paid	M5			(2,509)	(2,509)
Other operating cash flows		891,579	32,804	(10,553)	22,251
Net cash provided by operating activities		744,627	28,072		28,072
Cash Flows from Investing Activities					
Purchases of property, plant and equipment	M6	(443,668)	(16,506)	5,141	(11,365)
Interest paid, capitalized	M6			(5,141)	(5,141)
Other investing cash flows		(28,628)	(1,233)		(1,233)
Net cash used in investing activities		(472,296)	(17,739)		(17,739)
Cash Flows from Financing Activities					
Proceeds from borrowings		1,815,966	64,469		64,469
Repayment of borrowings	M7	(2,185,343)	(78,030)	269	(77,761)
Other financing cash flows		(69,112)	(2,728)		(2,728)
Net cash used in financing activities		(438,489)	(16,289)	269	(16,020)
Effect of exchange rate changes on cash and cash equivalents		(35,965)	1,051	(150)	901
Net decrease in cash and cash equivalents		(202,123)	(4,905)	119	(4,786)
	M7	274,539	8,979	(2,849)	6,130

Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period	M7	72,416	4,074	(2,730)	1,344

(1) The effect of translation from the functional currency to presentational currency of the U.S. GAAP financial statements was reversed to arrive at the comparative U.S. GAAP amounts in Russian rubles, using the exchange rates which were previously applied in U.S. GAAP to translate operations from the functional currency to the U.S. dollar.

(2) See notes to reconciliation of statements of profit (loss) and other comprehensive income (loss) above.

Trend Information

Demand

Mining. The demand for coking coal is dependent on the steel industry, which is directly tied to global economic cycles. In 2014, China s coking coal imports fell by 13 million tonnes due to growing usage of

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domestic material and a slowdown in demand, according to Platts. As a result, global metallurgical coal imports stagnated with a slight decrease of 0.2% in 2014, according to CRU. In 2015, total global metallurgical coal imports fell by 5.9% as China continued its policy to decrease coal imports to support domestic producers. As a result of such policy, imports of metallurgical coal in China fell by 20 million tonnes in 2015, according to CRU.

The steam coal market is driven by non-steel related factors, such as growth in electricity consumption, balance between supply and demand and seasonality. In 2015, total global seaborne steam coal imports dropped by 9.2% compared to 2014 driven by drastic fall in China import volumes, according to CRU.

According to the Department of Industry, Innovation and Science of Australian Government, in 2014, global iron ore trade increased by 11% due to world pig iron production growth and higher proportion of imported iron ore in Chinese consumption. Global iron ore trade is estimated to have increased by 1.8% in 2015, the lowest rate of growth since 2001, according to the Department of Industry, Innovation and Science of Australian Government. The main reason of such growth slowdown was decreased steel production in China.

Steel. Russia is our largest market for steel products. In 2014, Russian rolled steel consumption reached a level of 45.5 million tonnes, according to Metal Expert. In 2015, Russian rolled steel consumption declined by 8.7% and amounted to 41.5 million tonnes, according to Metal Expert.

In 2014, exports of steel products increased by 5.2% and reached 24.9 million tonnes as a result of the ruble devaluation, according to Metal Expert. In 2015, the volume of steel products exports from Russia grew by 8.4% and amounted to 27.0 million tonnes due to the growth in the exchange rate, according to Metal Expert.

In 2014, imports of steel declined by 20.5% and amounted to 5.5 million tonnes, according to Metal Expert. In 2015, imports of steel decreased significantly by 27.3% and amounted to 4.0 million tonnes, according to Metal Expert. The decline was due to the ruble devaluation and growth in supplies of domestic producers.

Power. In 2015, the electricity output of our generating facilities increased by 12% as compared to 2014. Heat energy generated for sale decreased by 7%.

The reduction in market demand for electricity energy has resulted in the need to adjust undertakings and completion schedules with respect to power industry companies investment programs. Currently the Russian government is analyzing the progress made on these programs, particularly in light of the current economic downturn, in an effort to clarify the timeline for installation of the necessary production capacities. It is expected that these decisions will result in a new long-term agreement with the Russian government regarding the regulatory scheme of the regulated capacity market which will determine the profitability of this market.

Sales

Mining. In 2016, we expect sales volumes of our mining segment to remain at the level of 2015 with an increase in the share of exports due to the increasing volumes of production at the Elga coal deposit. We believe that our policy of concluding long-term contracts for coal sales will strengthen our relationships with our customers and will give us long-term presence in both the domestic and export markets.

Steel. Our steel segment sales volumes are expected to increase in 2016 due to the increased production at the universal rolling mill resulting in an increase of structural shapes and rails sales. In addition, we believe that our strategy aimed at increasing the efficiency of the existing distribution network in conjunction with direct sales from our plants to the largest customers will allow us to strengthen our leading position in the market, to provide us with greater stability in steel sales and to improve our cash flow in the current economic slowdown.

Power. In 2016, we expect sales volumes of our power segment to remain at 2015 levels. We do not expect that consumption by small and mid-sized businesses and households, which are also customers of power and heat-supply companies, will change significantly. We plan to expand our distribution channels to build a new customer base among small and mid-sized businesses, as well as public utilities. We also plan to optimize our production capacity through further integration of our intra-group assets. We hope that further integration of our power assets, as well as diversification of our customer portfolio will allow us to avoid a fall in power segment sales caused by a decrease in demand from large industrial companies that are shifting their business from power supply companies.

Inventory

Overall, our inventory decreased by RUB 1,148 million, or 3.1%, to RUB 35,189 million as of December 31, 2015 from RUB 36,337 million as of December 31, 2014, due to the decrease in finished goods production costs, which was due to the decrease in raw materials costs as well as the decrease in production volumes in the steel segment as a result of the decline in steel products demand.

Costs

Mining. Within our mining segment, we expect our iron ore cash costs per tonne to increase in 2016 as a result of increasing prices of power, explosives, automotive tires and tubes for open pit equipment and land use fees, while coal cash costs per tonne should remain relatively stable in 2016 as a result of increasing operational efficiency and decreasing semi-fixed costs.

Steel. Excluding the effects of imposition of international sanctions against Russia and exchange rate fluctuations, our steel cash costs per tonne should remain relatively stable in 2016 as a result of achieving cost savings, as well as efficiency and output gains arising as a result of our targeted capital investment program. Specifically, as we continue to introduce operational and technical changes at our plants allowing us to better integrate their products, we expect to be better able to control our costs.

Power. We expect that in 2016 the cost of the production of electricity and heat energy will increase due to an increase in the prices of key raw materials, particularly natural gas, as well as some ancillary materials. We intend to maintain strict control over costs, which should enable us to cut expenditures by reducing fixed production costs, optimizing administrative expenses and increasing productivity to satisfy increased market demand in some regions.

Seasonality

Seasonal effects have a relatively limited impact on our results. Nevertheless, a slowing of demand and, thus, a reduction in sales volumes (and a related increase in inventories) is typically evident in the first and fourth quarters of the financial year as a result of the general reduction in economic activity associated with the New Year holiday period in Russia and elsewhere. We maintain increased stockpiles of scrap during the winter months in order to avoid potential supply disruptions due to inclement weather. We are dependent on the Russian construction market, which also experiences slowdowns in the winter months. Our mining segment revenues generally have the same seasonality as the steel segment since coking coal and iron ore are primarily used in the manufacture of steel and are closely linked to steel consumption. By contrast, our power segment sales volumes are generally higher in the first and the fourth quarters of the year, due to increased electricity and steam consumption in the winter period.

Consumption of combustive, lubricative and energy supplies during the winter months is generally higher than during the rest of the year. In addition, railroad carriers demand that iron ore concentrate be fully dried and coal concentrate be partially dried for transportation during the winter months, resulting in higher costs during that time.

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Item 6. *Directors, Senior Management and Employees*

Directors and Executive Officers

Board of Directors

All of our current directors were elected at an extraordinary general shareholders meeting which took place on March 4, 2016, and their terms expire on the date of our annual general shareholders meeting, which will take place not later than June 30, 2016. The business and mailing address for all our directors and executive officers is Krasnoarmeyskaya Street 1, Moscow 125167, Russian Federation.

Name	Year of Birth	Position
Igor V. Zyuzin	1960	Chairman, Chief Executive Officer of Mechel Mining
Oleg V. Korzhov(4)	1970	Director, Chief Executive Officer, Chairman of Management Board
Tigran G. Khachaturov(4)	1979	Director, Adviser to Chief Executive Officer for Finance
Alexey G. Ivanushkin(4)	1962	Director, Member of Management Board
Alexander N. Kotsky(1)(2)(4)	1957	Director
Alexander D. Orishchin(1)(3)(4)	1932	Director
Vladimir V. Gusev(1)(2)(3)	1945	Director
Yuriy N. Malyshev(1)(3)(4)	1939	Director
Vladimir Yu. Korovkin(1)(2)(3)	1960	Director

(1) Independent Director under the applicable NYSE regulations and Russian regulations.
(2) Member of the Audit Committee of the Board of Directors.
(3) Member of the Committee on Appointments and Remuneration.
(4) Member of the Committee on Investments and Strategic Planning.

Igor V. Zyuzin has been Chairman of our Board of Directors since July 2010. He was our Chief Executive Officer from December 2006 to June 2010 and Chairman of our Management Board from September 2007 to June 2010. He served as Chairman of our Board of Directors from March 2003, when Mechel was founded, to December 2006 and has been a member of our Board of Directors since that time. Mr. Zyuzin has been a member of the Board of Directors of Mechel Mining since April 2008 and Chief Executive Officer of Mechel Mining since July 2011. Mr. Zyuzin has also served as Chairman of the Board of Directors of Southern Kuzbass Coal Company since May 1999 and has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since 2001 and a member of the Board of Directors of Yakutugol since October 2007. He has served as Chairman of the Board of Directors of Yakutugol since June 2013. From July 2011 to April 2014, he was Chairman of the Management Board of Mechel Mining. From April 2008 to June 2011, Mr. Zyuzin served as Chairman of the Board of Directors of Mechel Mining. Mr. Zyuzin has over 29 years of experience in the coal mining industry. Mr. Zyuzin has a degree in technology and complex mechanization of underground mining from the Tula Polytechnic Institute. Mr. Zyuzin also has a degree in mining engineering economics and a Ph.D. in technical sciences in the coal mining field. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 36.34% of our common shares. See Item 7. Major Shareholders and Related Party Transactions.

Oleg V. Korzhov has been a member of our Board of Directors since June 2014. Mr. Korzhov has been our Chief Executive Officer and Chairman of our Management Board since January 2014. He was our Senior Vice President for

Economics and Management from February 2012 to December 2013. He has been a member of our Management Board since March 2009. Mr. Korzhov was our Senior Vice President for Business Planning and Analysis from November 2011 to February 2012, and our Vice President for Business Planning and Analysis from April 2009 to October 2011. Mr. Korzhov has been a member of the Board of Directors of Mechel Mining since June 2011 and Chairman of the Board of Directors of Mechel Mining since June 2014. He was a member of the Board of Directors of Port Posiet from May 2008 to June 2014, Beloretsk Metallurgical Plant and Mecheltrans from 2010 to 2014, Southern Kuzbass Power Plant from 2009 to 2014, Kuzbass Power Sales Company from 2010 to 2014, Chelyabinsk Metallurgical Plant from 2009 to 2011 and from June 2014 to

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June 2015, as well as Vyartsilya Metal Products Plant from 2008 to 2010. From July 2008 to April 2009, he was Deputy Chief Executive Officer for Economics and Finance of Mechel-Steel Management. From September 2005 to January 2006, he served as Economic Planning Director of Mechel and from February 2006 to July 2008 he held the same position at Mechel-Steel Management. From 2003 to 2005, Mr. Korzhov was Director for Finance and Economics of EvrazHolding OOO. From 1998 to 2003, he was Deputy Director for Economic Analysis and Pricing and then Director for Economics of Nizhniy Tagil Iron and Steel Works OAO. Mr. Korzhov has a degree in economics and management in metallurgy from the Urals Polytechnic Institute and a degree in general management from the Academy of National Economy under the Government of the Russian Federation. Mr. Korzhov also has a Ph.D. in economics.

Tigran G. Khachaturov has been a member of our Board of Directors since March 2016. He has been an Adviser to our Chief Executive Officer for Finance since February 2015. From July to December 2014, he was an Adviser to Director of Atomenergoprom JSC. From June 2013 to July 2014, he served as First Executive Vice President, as well as Head of Moscow representative office of Uranium One Holding N.V. From August 2007 to May 2013, Mr. Khachaturov was First Deputy General Director and Acting General Director at Atomredmetzoloto OAO. From April 2002 to August 2007, he held various positions at Techsnabexport OJSC, including First Deputy General Director since July 2004. Mr. Khachaturov has a degree in finance and credit from the Plekhanov Russian Academy of Economics.

Alexey G. Ivanushkin has been a member of our Board of Directors since June 2013 and a member of our Management Board since August 2014. He served as our Chief Operating Officer First Deputy Chief Executive Officer from August 2014 to March 2016. He was Chief Executive Officer of Oriel Resources Ltd. from April 2009 to March 2016. He has been a member of the Board of Directors of Oriel Resources Ltd. since October 2008 and a member of the Board of Directors of Southern Urals Nickel Plant since May 2009. He served as Chairman of the Board of Directors of Southern Urals Nickel Plant from May 2010 to March 2016. He was a member of our Board of Directors from March 2003 to July 2009, and served as our Chief Operating Officer from January 2004 to February 2009. Mr. Ivanushkin held the position of our Chief Executive Officer from March 2003 to January 2004. Mr. Ivanushkin served as Chairman of the Board of Directors of Chelyabinsk Metallurgical Plant from June 2002 to June 2009. From June to October 2004, he was Chief Executive Officer of Southern Kuzbass Coal Company. From December 1999 to April 2002, Mr. Ivanushkin served as Chief Executive Officer of Chelyabinsk Metallurgical Plant. From 1993 to November 1999, he was Director of the Department of Ferrous Metals and Ferroalloys in the Moscow office of Glencore International. Mr. Ivanushkin has a degree in economics and international relations from the Moscow State University of International Relations (MGIMO).

Alexander N. Kotsky has been a member of our Board of Directors since March 2016. He has also been a member of the Board of Directors of Port Vanino since June 2015. From 2008 to 2014, he was a member of the Board of Directors of Southern Kuzbass Coal Company. Mr. Kotsky has a degree in railway engineering from the Novosibirsk Institute of Railway Engineers.

Alexander D. Orishchin has been a member of our Board of Directors since March 2016. He was a member of the Board of Directors of Mechel Mining from June 2010 to June 2014. Mr. Orishchin has a degree in mining from the Tomsk Polytechnic Institute. He also holds a Ph.D. in technical sciences from the Moscow Mining Institute.

Vladimir V. Gusev has been a member of our Board of Directors since July 2009. In 2008, Mr. Gusev held the position of Vice President for Finance of the State Corporation Olympstroy. From 2005 to 2008, he was Deputy Head of the Federal Tax Service of the Russian Federation. From 1999 to 2005, he was First Deputy Minister of Taxes and Levies of the Russian Federation. Mr. Gusev has a law degree from the Leningrad State University. He also has a Ph.D. in economics and is an associate professor. He was awarded several national awards, including in 2000, by the Decree of the President of the Russian Federation, the title of Honored Economist of the Russian Federation. Mr. Gusev has authored more than 30 scientific papers and publications.

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Yuriy N. Malyshev has been a member of our Board of Directors since June 2013. Mr. Malyshev is currently Director of the State Geological Museum of V.I. Vernadsky. He has been President of the Academy of Mining Sciences of Russia since 1993. Mr. Malyshev also serves as Chairman of the Board of Directors of OShK Soyuzspetsstroy ZAO. He has been a member of the Board of Directors of JSC Acron since May 2015. From 1999 to 2013, he was President of the Non-profit Partnership Russian Mining Operators. Mr. Malyshev has almost 50 years of experience in various executive positions in the coal mining industry. He is a member of the Russian Academy of Sciences and has a D.Sc. in technical sciences. He has the honorary title of Honored Worker of Science and Technology of the Russian Federation. He is the recipient of several prizes and awards, including the order For Merit to the Motherland of the third grade, the Order of Honour and all three grades of the Miner s Glory order. Mr. Malyshev has a degree in mining from the Kemerovo Mining Institute.

Vladimir Yu. Korovkin has been a member of our Board of Directors since June 2014. From June 2011 to June 2014, he served as Chairman of the Board of Directors of Mechel Mining. Since 1995, Mr. Korovkin has held various positions at Federal Stock Corporation OAO, including President from 1999 to 2004 and Chairman since 2004. From 1982 to 1995, he held various positions at the Institute of World Economy and International Relations of the Russian Academy of Sciences. Mr. Korovkin has a degree in economic geography of foreign countries and a Ph.D. in economics from the Lomonosov Moscow State University.

Executive Officers

Name	Year of Birth	Position
Oleg V. Korzhov	1970	Chief Executive Officer, Director, Chairman of Management Board
Victor A. Trigubko	1956	Senior Vice President Government Relations, Member of Management Board
Andrey A. Slivchenko	1975	Vice President Finance, Member of Management Board
Valery A. Sheverdin	1963	Vice President for Corporate Security, Member of Management Board
Minas A. Darbinyan	1983	Deputy Chief Executive Officer for Financial Control, Member of Management Board
Irina N. Ipeeva	1963	Director of Legal Department, Member of Management Board
Natalya O. Trubkina	1964	Human Resources Director, Member of Management Board
Tigran G. Khachaturov	1979	Adviser to Chief Executive Officer for Finance, Director
Pavel V. Shtark	1969	Chief Executive Officer of Mechel Mining Management, Member of Management Board
Andrey A. Ponomarev	1977	Chief Executive Officer of Mechel-Steel Management, Member of Management Board
Petr A. Pashnin	1977	Chief Executive Officer of Mechel Energo
Alexey V. Lebedev	1974	Chief Executive Officer of Mecheltrans Management, Member of Management Board

For brief biographies of Messrs. Korzhov and Khachaturov, see Board of Directors.

Victor A. Trigubko has been our Senior Vice President Government Relations since August 2006 and a member of our Management Board since February 2016. He was a member of our Board of Directors from June 2012 to March

2016. He served as our Vice President Government Relations from 2005 to August 2006. From 2003 to 2005, he was our Vice President for Representation in Central and Eastern Europe, Chairman of the Board of Directors of Mechel Campia Turzii S.A. and a member of the Board of Directors of Mechel Targoviste

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S.A. From 2002 to 2003, Mr. Trigubko held the position of Director of Mechel International Holdings AG s representative office in Romania. From 1997 to 2002, he was Head of Izhstal s representative office in Moscow. From 1992 to 1997, he held various executive positions in the metallurgical company Unibros Steel Co. LTD, including Deputy General Director. Mr. Trigubko also worked in the Foreign Relations Department of the USSR State Committee for Labor and Social Issues and in the USSR Trade Representation Office in Romania. Mr. Trigubko has a degree in economics from the Kalinin State University.

Andrey A. Slivchenko has been our Vice President Finance since May 2014 and a member of our Management Board since August 2014. From April 2014 to May 2014, Mr. Slivchenko was our Director for Finance. He has been a member of the Board of Directors of Southern Kuzbass Coal Company since June 2014. From January 2012 to September 2012, he served as Chief Executive Officer and from November 2011 to January 2012 as Chief Operating Officer of Pharmacy Chain 36.6 OAO. From July 2007 to April 2011, he was Vice President for Corporate Finance at United Aircraft Corporation JSC. From August 2003 to July 2007, Mr. Slivchenko held the position of Director for Corporate Finance at Pharmacy Chain 36.6 OAO. From January 2001 to May 2003, he was Director for Corporate Finance at Ilim Pulp Enterprise ZAO. From August 1997 to February 1999, he held various positions at Yukos Oil Company, including Head of the Financial Markets Department of Yukos-Moskva OOO. Mr. Slivchenko received a bachelor s degree in economics and a master s degree in management from the International University in Moscow.

Valery A. Sheverdin has been our Vice President for Corporate Security since March 2014 and a member of our Management Board since August 2014. From June 2009 to March 2014, Mr. Sheverdin held the positions of our Director of the Department of Safety of Property Complex and Director of the Corporate Security Department. From April 2011 to March 2014, he was Chief Executive Officer of Mechel-Garant OOO. From July 2007 to April 2011, he worked in PSC Mechel-Centre OOO, including as General Director from December 2007. From April 2004 to June 2007, Mr. Sheverdin held various positions in Lukom-A Agency ZAO. From February 2001 to March 2003, he was Chairman of the Belgorod regional office of the Russian Fund of Social Progress. From September 1995 to February 2001, he held various executive positions in security agencies. From November 1981 to August 1995, he served in the Armed Forces of the Russian Federation. Mr. Sheverdin graduated from the Moscow Border Institute of the Federal Security Service of the Russian Federation with a degree in law and the Kolomna Higher Artillery Command College of the October Revolution.

Minas A. Darbinyan has been our Deputy Chief Executive Officer for Financial Control since June 2015 and a member of our Management Board since July 2015. He has been a member of the Board of Directors of Port Posiet since March 2016. From November 2013 to January 2015, he served as Director for Strategic Planning at Uranium One Holding N.V., part of state-owned corporation Rosatom. From April to November 2013, he headed Investment Planning and Development Department at Atomredmetzoloto OAO, also part of Rosatom. From May 2011 to April 2013, Mr. Darbinyan was senior consultant at KPMG ZAO. From 2008 to 2011, he held various positions at MIEL-DPM OOO, including Chief Financial Officer since 2010. From 2006 to 2008, he was an assistant to the Vice President-head of Moscow regional office in Moscow Industrial bank. Mr. Darbinyan has a degree in management from the Academy of National Economy under the Government of the Russian Federation and a degree in economics from the State Academic University for Humanities.

Irina N. Ipeeva has been Director of our Legal Department since April 2009 and a member of our Management Board since September 2007. She has been a member of the Board of Directors of Southern Kuzbass Coal Company since 2007 and a member of the Board of Directors of Mechel Mining since June 2014. From September 2007 to April 2009, she was our General Counsel, Deputy Director of the Legal Department Director of the Department of Corporate Governance and Property. From 2003 to 2007, Mrs. Ipeeva held the position of General Counsel and Director of the Department of Corporate Governance and Property. From February to July 2006, she was Director of the Department of Corporate Governance and Property of Mechel-Steel Management. From March to June 2003, Mrs. Ipeeva held the position of Deputy General Director for Property Matters of Uglemet-Trading OOO. From December 2001 to March 2003, she was Head of the Department for Regulation of Corporate Relations and Property of Southern Kuzbass Coal Company and, from January to November 2001, she was Head of the Share Capital Department. From August 1988 to January 2001, Mrs. Ipeeva worked at the Kuzbassugleobogashcheniye Industrial Amalgamation and the Tomusinskaya Washing Plant, where she held positions ranging from a legal adviser to head of the legal department. Mrs. Ipeeva has a degree in law from the Kuibyshev State University.

Natalya O. Trubkina has been our Human Resources Director since September 2015 and a member of our Management Board since February 2016. From August 2009 to August 2015, she held the position of Human Resources Director of Mechel-Steel Management. She has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since June 2015. She was a member of the Board of Directors of Urals Stampings Plant from June 2014 to June 2015. In 2009, she served as Human Resources Director in Souzmetallresource Management Company ZAO. From 2004 to 2009, Mrs. Trubkina worked in United Company RUSAL, including as Head of the Human Resources Department of secondary alloys business since 2006. From 2003 to 2004, she was HR manager in Texas Nafta Industries Inc. From 1994 to 2002, she was HR manager in Belpromstroybank OAO. Mrs. Trubkina has a degree in heat and gas supply and ventilation from the Novopolotsk Polytechnic Institute, as well as a diploma of further education in personnel management psychology from the Lomonosov Moscow State University.

Pavel V. Shtark has been Chief Executive Officer of Mechel Mining Management since July 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Moscow Coke and Gas Plant since June 2013, a member of the Board of Directors of Elgaugol since August 2013 and a member of the Board of Directors of Mechel Mining, Southern Kuzbass Coal Company, Korshunov Mining Plant and Yakutugol since June 2014. He was a member of the Management Board of Mechel Mining from July 2013 to April 2014. From October 2012 to July 2013, he held the position of Deputy General Director for Coke and Chemical Products Production Managing Director of Moscow Coke and Gas Plant. From April 2008 to October 2012, Mr. Shtark served as Deputy Director, Director and Managing Director of Mechel Coke. From October 1996 to March 2008, he was Head of the Workshop, Chief Engineer of Coke and Chemical Products Production at Nizhniy Tagil Iron and Steel Works OAO. Mr. Shtark has a degree in equipment and technology of welding production from the Urals State Technical University and a degree in chemical technology of natural energy carriers and carbon materials from the same university.

Andrey A. Ponomarev has been Chief Executive Officer of Mechel-Steel Management since December 2015 and a member of our Management Board since February 2016. From August 2012 to November 2015, he served as First Deputy Chief Executive Officer of Mechel-Steel Management. He has been a member of the Board of Directors of Chelyabinsk Metallurgical Plant since 2013. He was a member of the Board of Directors of Vyartsilya Metal Products Plant and Beloretsk Metallurgical Plant from 2013 to 2014, Urals Stampings Plant from 2013 to 2015 and Izhstal from 2014 to 2015. From August 2009 to August 2013, he headed Mechel Service Global. From May 2005 to August 2009, Mr. Ponomarev was Managing Director of Mechel Service. From 2002 to 2005, he held various positions at Uglemet Trading OOO and Mechel Trading House OOO, including Head of Regional Sales Department. From 2000 to 2002, he served as chief of the analysis bureau in Chelyabinsk Metallurgical Plant s marketing and sales service. From 1999 to 2000, he was an engineer in the special steels sales department of Chelyabinsk Metallurgical Plant s marketing and sales service. Mr. Ponomarev has a degree in pressure metal treatment and a degree in finance from the Southern Urals State University.

Petr A. Pashnin has been Chief Executive Officer of Mechel Energo since November 2013. He has been a member of the Board of Directors of Kuzbass Power Sales Company since May 2014 and a member of the Board of Directors of Southern Kuzbass Power Plant since June 2015. He was a member of the Board of Directors of Tomusinsk Energo Management from June 2014 to June 2015. From July to November 2013, he held the position of Technical Director of Mechel Energo. From March 2012 to June 2013, he was Chief Operating Officer of Toplofikatsia Rousse. From September 2011 to February 2012, he served as Head of Energy Efficiency and Energy Audit Department of Mechel

Energo. From February 2008 to September 2011, he held various positions at the Chelyabinsk branch of Mechel Energo. From July 1999 to January 2008, he worked at

Chelyabinsk Metallurgical Plant, where he held positions ranging from steam turbine operator to heat and power station chief engineer. Mr. Pashnin has a degree in industrial heat power engineering from the Southern Urals State University.

Alexey V. Lebedev has been Chief Executive Officer of Mecheltrans Management since December 2013 and a member of our Management Board since August 2014. He has been a member of the Board of Directors of Mecheltrans since April 2014 and a member of the Board of Directors of Port Kambarka and Port Vanino since June 2014. He was a member of the Board of Directors of Port Posiet from June 2014 to March 2016. He served as Chief Executive Officer of Mecheltrans Auto from February 2011 to December 2013 and Director of Motor Transportation Department of Mecheltrans from June 2010 to January 2011. From 2005 to 2010, Mr. Lebedev was Director of Uraltechstroy NN OOO. From 2004 to 2005, he held the position of Deputy General Director of Region Express TK OOO. From 1998 to 2003, he held various positions at UralPromSnab OOO. From 1993 to 1998, he was Head of Railway Transportation Department of Transfero EAFC OOO. Mr. Lebedev has a degree in industrial management from the Izhevsk State Technical University.

Compensation

Our directors and executive officers were paid an aggregate of approximately $7.8 million for services in all capacities provided to us during 2015. Our directors and executive officers are also provided with voluntary medical insurance and the use of wireless services.

Board of Directors

Members of our Board of Directors are elected by a majority of the voting stock present at our annual general shareholders meeting using a cumulative voting system. Directors are elected to serve until the next annual general shareholders meeting and may be re-elected an unlimited number of times. Our Board of Directors currently consists of nine members, five of whom are independent pursuant to the director independence criteria set forth both in the applicable Russian regulations and NYSE regulations, as well as in the Charter and the Bylaw on the Board of Directors of Mechel PAO. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See Item 10. Additional Information General Meetings of Shareholders for more information regarding the competence of our general shareholders meetings. Some of the members of our Board of Directors, as well as the members of the boards of directors of our subsidiaries, serve pursuant to contracts. These contracts do not provide for any benefits upon termination of their directorship.

Committees of the Board of Directors

Audit Committee

The Audit Committee consists of Vladimir Korovkin, Vladimir Gusev and Alexander Kotsky, each of whom is an Independent Director. Our Audit Committee operates pursuant to a bylaw, which is available at *www.mechel.com*. The purpose of this Committee is to assist the Board of Directors with its oversight responsibilities regarding:

- the quality and integrity of our financial statements;
- our compliance with legal and regulatory requirements;

the independent auditor s qualifications and independence; and

the performance of our internal audit function and independent auditor.

Committee on Investments and Strategic Planning

The members of the Committee on Investments and Strategic Planning are Yuriy Malyshev, Alexander Orishchin, Alexey Ivanushkin, Alexander Kotsky, Tigran Khachaturov and Oleg Korzhov. The Committee on

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Investments and Strategic Planning defines our strategic goals and defines our priorities. The Committee makes recommendations to the Board of Directors on our dividend policy and on the adjustments to our strategy as required in order to enhance our efficiency. Our Committee on Investments and Strategic Planning operates pursuant to a bylaw, which is available at *www.mechel.com.*

The following sub-committees were set up under the Committee on Investments and Strategic Planning:

- Sub-committee on metallurgical production strategy, with members Alexey Ivanushkin and Oleg Korzhov;
- Sub-committee on mining production strategy, with members Yuriy Malyshev, Alexander Kotsky and Alexander Orishchin; and
- Sub-committee on power production strategy, with members Tigran Khachaturov and Alexey Ivanushkin.

Committee on Appointments and Remuneration

The members of the Committee on Appointments and Remuneration are Vladimir Gusev, Vladimir Korovkin, Alexander Orishchin and Yuriy Malyshev, each of whom is an Independent Director. The Committee on Appointments and Remuneration has been established to maintain continuity and high professional standards, as well as to work out a competitive remuneration system, within our group. The Committee prepares recommendations to the Board of Directors on candidates for appointment to the Management Board or as our Chief Executive Officer or other executive officers or senior officers of our subsidiaries. It also prepares appraisals of their performance and makes recommendations regarding their remuneration. The Committee also defines the requirements applicable to nominees to the Board of Directors and informs the shareholders of such nominees. The Committee operates pursuant to a bylaw, which is available at *www.mechel.com*.

Management Board

In September 2007, we created a Management Board to provide for greater oversight of our operations. For more information, see Item 10. Additional Information Management Board. The members of the Management Board are set out above under Directors and Executive Officers.

Management Companies

We have four management companies within our group which provide management services to the companies within the mining, steel and power segments and to our companies within our transport division.

Mechel Mining Management

Mechel Mining Management was established in July 2008 as a wholly-owned subsidiary of Mechel Mining with the purpose to provide management services to the production subsidiaries within our mining segment. Mechel Mining Management presently performs the functions of the sole executive body of the following companies: Southern Kuzbass Coal Company, Korshunov Mining Plant, Yakutugol, Moscow Coke and Gas Plant, Mechel Coke, Mechel Engineering, Elgaugol and Vzryvprom.

Mechel-Steel Management

Mechel-Steel Management was established in October 2005 as a wholly-owned subsidiary of Mechel with the initial purpose to provide management services to our subsidiaries by performing the functions of their respective management bodies. The company s former name was Mechel Management OOO which was changed in September 2009 in line with the reorganization of our group s management structure. Mechel-Steel

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Management presently provides management services to our subsidiaries within the steel segment by performing the functions of the sole executive body of Chelyabinsk Metallurgical Plant, Urals Stampings Plant, Izhstal and Bratsk Ferroalloy Plant.

Mechel Energo

Mechel Energo was established in May 2001 under the name of Regional Energy Company ENERGOSBYT OOO. In February 2004, we acquired the company with a view to make the strategic and operational management of our power assets more efficient. The name of the company was changed to its current name in April 2004. Mechel Energo performs the functions of the sole executive body of Southern Kuzbass Power Plant in our power segment.

Mecheltrans Management

Mecheltrans Management was established in March 2010 as a wholly-owned subsidiary of Mechel and since July 2010 began to provide management services to the companies within our transport division by performing the functions of the sole executive body of Mecheltrans, Mecheltrans Vostok, Port Posiet, Port Kambarka and Port Temryuk.

Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. The members of our Review Commission are nominated and elected by our shareholders to serve until the next annual general shareholders meeting. Our Chief Executive Officer, a member of our Board of Directors and a member of our Management Board may not simultaneously be a member of the Review Commission. Our Review Commission currently has three members: Alexander N. Kapralov, Andrey V. Stepanov and Natalya S. Zykova. The powers and duties of our Review Commission are governed by a bylaw approved by our general shareholders meeting.

Internal Control and Audit Department

The Internal Control and Audit Department s main function is to systematically, consistently and independently from our management assess and improve the efficiency of our group s risk management, internal control, corporate governance and information systems. The activities of the Internal Control and Audit Department are governed by the Bylaw on the Internal Control and Audit Department. Natalya S. Zykova serves as the Director of the Internal Control and Audit Department. The Department is functionally subordinated to the Audit Committee of the Board of Directors, and administrated by our Chief Executive Officer.

Corporate Governance Principles

Our corporate governance principles are based on the Russian Corporate Governance Code recommended by the CBR and supplemented by the obligations of the Board of Directors prescribed by Russian law, our charter and internal rules of procedure. The principles are intended to ensure that we are managed and monitored in a responsible and value-driven manner. They include the protection of shareholders rights, comprehensive disclosure and transparency requirements and rules governing conflicts of interest. We are committed to continuing to adapt our corporate governance principles to developments in best-practices. Our corporate governance principles are reflected in our corporate documents, such as:

the Charter;

the Bylaw on the Board of Directors;

the Bylaw on the General Meeting of Shareholders;

the Bylaw on the General Director;

- the Bylaw on the Collegial Executive Body (Management Board);
- the Bylaw on the Review Commission;
- the Bylaw on the Internal Control and Audit Department;
- the Code of Business Conduct and Ethics;
- the Bylaw on the Prohibition and Prevention of Insider Trading;
- the Bylaw on the Disclosure of Information that may Significantly Impact the Market Value of our Shares;
- the Bylaw on Information Policy;
- the Bylaw on Appointments and Remuneration Committee of the Board of Directors;
- the Bylaw on Investments and Strategic Planning Committee of the Board of Directors;
- the Bylaw on the Audit Committee of the Board of Directors;
- the Code of Corporate Governance; and
- the Bylaw on Dividend Policy.

These documents are available at *www.mechel.com* and *www.mechel.ru*.

We also comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Such requirements include: (1) the obligation to have at least three independent directors, who shall represent at least one-fifth of the members of the board of directors; (2) the establishment of an audit committee chaired by an independent director and a committee on appointments and remuneration consisting of independent directors, or, if not practicable, of independent directors and members of the board of directors who are not a sole executive body and/or members of the collegial executive body; (3) the establishment of a corporate body responsible for the internal audit (control) and adoption of an internal audit (control) policy; (4) the adoption of a dividend policy; (5) the obligation to notify shareholders about the annual general shareholders meeting not less than 30 days before the date of the meeting; and (6) the obligation to disclose information about the date when the list of persons entitled to participate in a general shareholders meeting is prepared, at least seven days prior to such date.

We also comply with applicable corporate governance requirements of the NYSE. The NYSE permits listed companies that are foreign private issuers, such as Mechel, to follow their home jurisdiction governance practice where it differs from the NYSE requirements. In addition, we have voluntarily complied with certain other requirements applicable to U.S. companies under the NYSE Listing Standard 303A. A summary description of the NYSE Listing Standard 303A showing our compliance therewith and/or the alternative corporate governance practices followed by us is available at *www.mechel.com*. See also Item 16G. Corporate Governance.

Employees

As of December 31, 2015 and 2014, we employed 65,888 and 67,880 people as follows:

	2015		**2014**	
Segment	**Total Employees**	**% Unionized**	**Total Employees**	**% Unionized**
Mining	24,322	66%	24,969	68%
Steel	36,430	61%	37,769	60%
Power	4,447	34%	4,436	36%
Other	689	8%	706	16%
Total	65,888	61%	67,880	61%

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

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

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

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

Employees of Yakutugol, Neryungry Car Fleet and Mechel-Remservice are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Mechel Energo are members of the Ore Mining and Smelting Trade Union of Russia.

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

Employees of Mecheltrans separate business unit in the city of Myski are members of the Russian Independent Trade Union of Coal Industry Workers.

Employees of Southern Kuzbass Power Plant are members of the All-Russian Power Industry Trade Union and of the Russian Independent Trade Union of Coal Industry Workers.

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

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

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

We consider our relationships with our employees to be good.

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

The following table sets forth information regarding our major shareholders, which means shareholders that are the beneficial owners of 5% or more of our common shares, as of March 31, 2016, based on the information available to us:

Name of Beneficial Owner	Number of Common Shares	% of Common Shares
Igor V. Zyuzin[(1)]	151,273,468	36.34%
Irina V. Zyuzina[(2)]	77,826,997	18.70%
Ksenia I. Zyuzina[(2)]	77,826,997	18.70%
Kirill I. Zyuzin[(2)]	77,826,997	18.70%
Other[(3)(4)]	187,170,280	44.96%

(1) Mr. Zyuzin is the Chairman of our Board of Directors. See Item 6. Directors, Senior Management and Employees Directors and Executive Officers. Mr. Zyuzin may be deemed to be the beneficial owner of approximately 36.34% of our common shares through (i) his record ownership of 21.54% of our common shares; and (ii) his ownership of 100% of the equity interest in Calridge Limited (**Calridge**). Calridge is the owner of 14.80% of our common shares. Further information regarding the shareholdings of Mr. Zyuzin is available in the Schedule 13D filed by him with the SEC.

(2) In the course of 2016, MetHol OOO (**MetHol**), which is owned by Mrs. Irina V. Zyuzina, Ms. Ksenia I. Zyuzina and Mr. Kirill I. Zyuzin (the **Zyuzin Family Members**), acquired 77,826,997 of our common shares from Calridge. As a result, MetHol is now the owner of 18.70% of our common shares. As a result, each of the Zyuzin Family Members may be deemed to share beneficial ownership of the 18.70% shareholding held of record by MetHol. Further information regarding the shareholdings of the Zyuzin Family Members is available in the Schedule 13D that each Zyuzin Family Member has filed with the SEC.

(3) According to Deutsche Bank Trust Company Americas, as of March 31, 2016, 43,188,339 common ADSs and 26,750,001 GDSs were outstanding, representing 33.60% of our total issued common shares.

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

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

Related Party Transactions

See note 14 to the consolidated financial statements.

Item 8. ***Financial Information***

See Item 18. Financial Statements.

Litigation

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

Tax

On January 16, 2012, Mechel Trading House received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 5.9 billion rubles for the 2008-2009 period. We contested this assessment through the administrative procedure with the higher-level tax authorities which reduced the assessment to 5.5 billion rubles. On June 5, 2012, Mechel Trading House filed a claim with the Moscow Arbitrazh Court to contest the amount of 5.5 billion rubles. On January 9, 2014, the Moscow Arbitrazh Court sustained the Mechel Trading House claims in part of 1.6 billion rubles, including penalties and fines, and the remaining claims were denied. Mechel Trading House did not appeal the decision. On June 19, 2014, the Moscow Arbitrazh Court sustained the application of Mechel Trading House, requesting leave to repay the remaining 3.9 billion ruble assessment on an installment basis by May 2016. On March 15, 2016, Mechel Trading House reapplied with the court for installment payment. On March 31, 2016, the Moscow Arbitrazh Court extended the installment payment until May 2017.

In June 2012, Chelyabinsk Metallurgical Plant received an assessment from the tax authorities for profit tax, interest and incurred penalties in a total amount of 315.2 million rubles for the year 2008. We contested this assessment with the higher-level tax authorities. The higher-level tax authorities reduced the assessment to 104.6 million rubles. On January 18, 2013, Chelyabinsk Metallurgical Plant filed a claim with the Moscow Arbitrazh Court to contest the amount of 104.6 million rubles. On December 29, 2014, the Moscow Arbitrazh Court sustained the Chelyabinsk Metallurgical Plant claims in part of 28.3 million rubles and the remaining claims were denied. Chelyabinsk Metallurgical Plant filed an appeal with the Ninth Arbitrazh Court of Appeal. On February 19, 2015, the Ninth Arbitrazh Court of Appeal reversed the lower court s decision in part of reducing the profit tax assessment in the amount of 69.0 thousand rubles, the rest of the court s decision was upheld. Chelyabinsk Metallurgical Plant filed a cassation appeal with the Arbitrazh Court of Moscow District. On July 3, 2015, the court dismissed the cassation appeal.

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We believe that we have paid or accrued all taxes that are applicable. Where uncertainty exists, we have accrued tax liabilities based on management s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. We accrued RUB 480 million and RUB 620 million of tax claims other than income tax that management believes are probable as of December 31, 2015 and 2014, respectively. In addition, income tax claims that management believes are probable were accrued. See note 21 to the consolidated financial statements.

Antimonopoly

In September 2013, the FAS found the Administration of the Kemerovo region, Russian Railways and 16 largest freight railway operators, including Mecheltrans, to have violated the Competition Law by entering into an agreement that led or could have led to the division of the commodity market on a territorial principle, in volume of sale of goods and composition of customers of goods, as well as to limiting access to the commodity market for entities or their elimination from it. Mecheltrans was fined by the FAS in the amount of 19.3 million rubles. We filed an appeal with the Moscow Arbitrazh Court. In June 2015, the Moscow Arbitrazh Court invalidated the regulation of the FAS and cancelled the fine. In September and December 2015, the higher courts upheld the decision of the Moscow Arbitrazh Court. In April 2016, the Supreme Court of the Russian Federation denied to transfer the FAS s cassation appeal for consideration at the court hearing of the Chamber for Commercial Disputes of the Supreme Court of the Russian Federation.

Environmental and safety

Pursuant to a claim of the Novokuznetsk Environmental Prosecutor s Office against Southern Kuzbass Power Plant concerning the discharge of pollutants into the atmosphere above the maximum allowable level, the court ruled in September 2008 that we must limit the discharge of pollutants into the atmosphere to comply with the maximum allowable level. We have complied with the ruling effective as of November 2009. The court also mandated us to reconstruct the de-dusting system. Since then, we have applied several times for stay of execution, the last time being in June 2014, and the court allowed us to stay execution of this mandate until June 1, 2016. We are continuing with the reconstruction and replacement of the dust and gas scrubber equipment. During 2013-2015, we completed the reconstruction of three of the boilers and have commenced the reconstruction of another boiler.

On June 11, 2013, the Department of Rosprirodnadzor for the Republic of Bashkortostan filed a lawsuit against Beloretsk Metallurgical Plant with the Arbitrazh Court of the Republic of Bashkortostan seeking the recovery of damages caused to water resources as a result of non-compliance with water legislation in the amount of 408.2 million rubles. During the court hearings claims under the lawsuit were reduced to 398.6 million rubles. On October 3, 2013, the Arbitrazh Court of the Republic of Bashkortostan rendered a decision to collect from Beloretsk Metallurgical Plant the amount of damages in the amount of 398.6 million rubles. We contested this decision with the Eighteenth Arbitrazh Court of Appeal. On January 28, 2014, the court upheld the decision of the lower court. On February 7, 2014, Beloretsk Metallurgical Plant filed a cassation appeal with the Federal Arbitrazh Court of Ural District. At the court hearing held on April 14, 2014 Beloretsk Metallurgical Plant withdrew its cassation appeal. On May 27, 2014, the Arbitrazh Court of the Republic of Bashkortostan approved a settlement agreement between Rosprirodnadzor for the Republic of Bashkortostan and Beloretsk Metallurgical Plant. In accordance with the settlement agreement, Beloretsk Metallurgical Plant is obliged to develop project documentation for the technical upgrading and/or reconstruction (construction) of waste treatment facilities system in order to bring the quality of discharged waste water into compliance with applicable regulatory requirements. The reconstruction of waste treatment facilities system must be completed by December 31, 2016.

In February 2016, the Bratsk Environmental Prosecutor s Office filed a claim with the Bratsk City Court of Irkutsk region against Bratsk Ferroalloy Plant seeking to ban (suspend) operation of one ore-thermal furnace until the complete replacement of the filter elements of its gas-cleaning unit and to oblige Bratsk Ferroalloy Plant to carry out the replacement of the filter elements by June 1, 2016. The court sustained the claims of the Bratsk

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Environmental Prosecutor s Office regarding the replacement of the filter elements by June 1, 2016 and dismissed the rest of claims. We have begun to replace the filter elements.

Commercial litigation

During the period from February 2014 to April 2015, Novatek Chelyabinsk OOO filed 18 claims against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region seeking recovery of debt for gas supplied from December 2013 to March 2015 in an aggregate amount of approximately 8.0 billion rubles and penalty for delay in payment in an aggregate amount of approximately 145.0 million rubles. During the court hearings the amounts of claims were reduced to approximately 7.1 billion rubles of principal and approximately 160.0 million rubles of penalties. From April 2014 to October 2015, the Arbitrazh Court of Chelyabinsk region sustained the plaintiff s claims under 18 cases. We appealed 16 cases. From July 2014 to October 2015, the Eighteenth Arbitrazh Court of Appeal dismissed our claims with respect to all these cases. Chelyabinsk Metallurgical Plant repaid debt in the amount of 7.1 billion rubles as principal and 45.5 million rubles as penalty.

On August 11, 2014, RPFB Project Finance OOO filed a claim against Mechel with the Moscow Arbitrazh Court seeking recovery of debt for provided consulting services in the amount of 731.8 million rubles, interest in the amount of 20.2 million rubles and litigation costs. On February 25, 2015, the Moscow Arbitrazh Court rendered a decision to sustain the claim in full. We appealed the decision, but the higher courts dismissed our claims. In August 2015, RPFB Project Finance OOO filed a bankruptcy petition with the Moscow Arbitrazh Court. In September 2015, the debt was repaid in full and the court terminated the proceedings.

In December 2014, Minmetals appealed to the Arbitration Institute of the Stockholm Chamber of Commerce against Chelyabinsk Metallurgical Plant to recover alleged amounts due under the equipment supply contract amounting in total to approximately $128.4 million. Chelyabinsk Metallurgical Plant has submitted a counterclaim in this matter amounting to $68.4 million, which includes a penalty for delay and the recovery of damages for failing to perform works and rectifying works of poor quality. The tribunal has been appointed. The parties have provided evidence as per arbitration proceeding. Currently, Chelyabinsk Metallurgical Plant has challenged an arbitrator appointed by Minmetals. Minmetals has to appeal the statement of defense of the defendant and present a statement of defense to the cross-action with the attachment of the evidence until May 31, 2016.

In February 2015, Mecheltrans filed a claim against SM Capital OOO with the Moscow Arbitrazh Court seeking recovery of debt under REPO agreements (bonds) in the amount of 1.38 billion rubles. In March 2015, SM Capital OOO filed a counterclaim against Mecheltrans and Mechel (as the guarantor) with the Moscow Arbitrazh Court seeking recovery of debt under the same REPO agreements (bonds) in the amount of 1.44 billion rubles. On June 30, 2015, the Moscow Arbitrazh Court sustained the Mecheltrans s claim in full and dismissed the counterclaim of SM Capital OOO. SM Capital OOO filed an appeal. The Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court.

From May 2015 to April 2016, Novatek Chelyabinsk OOO filed 20 claims against Chelyabinsk Metallurgical Plant with the Arbitrazh Court of Chelyabinsk region seeking recovery of debt for gas supplied from April 2015 to March 2016 in an aggregate amount of approximately 6.3 billion rubles and penalty for delay in payment in an aggregate amount of approximately 229.4 million rubles. During the period from July 2015 to April 2016, the Arbitrazh Court of Chelyabinsk region sustained the plaintiff s claims under 18 cases. We appealed 16 cases. The Eighteenth Arbitrazh Court of Appeal dismissed our claims with respect to 12 cases and the remaining four cases will be considered in May 2016. The court hearings with respect to two cases are scheduled for late April-May 2016. Chelyabinsk Metallurgical Plant repaid debt in the amount of 4.0 billion rubles as principal.

In December 2015, ERG SALES AG filed a claim against Chelyabinsk Metallurgical Plant with the London Court of International Arbitration (**LCIA**) seeking recovery of debt under iron ore feed supply contract in the amount of $10.7 million and penalty for delay in payment in the amount of $513.4 thousand. The court hearing has not been scheduled yet.

Debt litigation

VTB Group Companies

On September 25, 2014, VTB Bank filed a lawsuit against Mechel with the Moscow Arbitrazh Court seeking recovery of debt under a credit facility agreement in an aggregate amount of approximately 3.0 billion rubles, including interest on the loan in the amount of 2.9 billion rubles and penalty in the amount of 104.5 million rubles. On October 30, 2014, we filed a counterclaim against VTB Bank seeking the revision of credit facility clauses. On December 12, 2014, the Moscow Arbitrazh Court sustained the VTB Bank claims and dismissed our claims. On June 9, 2015, the Ninth Arbitrazh Court of Appeal upheld the decision of the Moscow Arbitrazh Court. We filed a cassation appeal which was returned upon our request due to the restructuring of the debt.

In October 2014, VTB Factoring OOO filed a lawsuit with the Moscow Arbitrazh Court against Chelyabinsk Metallurgical Plant and Mechel Service seeking jointly and severally recovery of debt on payments of 867.7 million rubles, and recovery from Chelyabinsk Metallurgical Plant of debt on payments of financing fees of 86.6 million rubles. On February 3, 2015, the Moscow Arbitrazh Court sustained the lawsuit in full. Chelyabinsk Metallurgical Plant and Mechel Service appealed with the Ninth Arbitrazh Court of Appeal. On April 27, 2015, the Ninth Arbitrazh Court of Appeal dismissed the appeals. In August 2015, the proceedings were terminated in connection with the approval of the settlement agreement by the court.

In December 2014, Yakutugol and Southern Kuzbass Coal Company each filed separate lawsuits against VTB Bank with the Moscow Arbitrazh Court seeking amendment of the loan agreements in connection with the substantial change of circumstances, namely a sharp decline in coal prices. We withdrew these lawsuits due to the restructuring of the debt.

On December 30, 2014, Mechel Carbon Singapore received Statutory Demands from VTB Bank for the payment of: (i) 10.0 billion rubles (principal amount) and 322.2 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Southern Kuzbass Coal Company, and (ii) 5.8 billion rubles (principal amount) and 187.3 million rubles (interest) based on the guarantee of Mechel Carbon Singapore in favor of VTB Bank under the credit facility agreement between VTB Bank and Yakutugol. On January 20, 2015, Mechel Carbon Singapore declined to pay under the Statutory Demands of VTB Bank with respect to several litigations concerning credit facility agreements between the borrowers (Southern Kuzbass Coal Company and Yakutugol) and VTB Bank in Russia. On January 27, 2015, VTB Bank submitted an application to the High Court of Singapore for the winding up proceedings against Mechel Carbon Singapore. On February 13, 2015, the High Court stated that VTB Bank has to submit the final letter of claim by February 27, 2015 and Mechel Carbon Singapore has to submit the final letter of defense by March 13, 2015. VTB Bank submitted its final letter of claim on March 16, 2015 and Mechel Carbon Singapore submitted its final letter of defense on March 26, 2015. VTB Bank requested for hearings on April 6, 2015, April 9, 2015, April 30, 2015, July 1, 2015, September 28, 2015 and October 19, 2015, however due to the fact that restructuring agreements between Mechel and VTB Bank were signed and became effective on October 13, 2015, the High Court of Singapore ordered that VTB Bank be granted a right to withdraw its claims against Mechel on October 19, 2015.

On January 7, 2015, Mechel Carbon received two notices of Betreibungsamt of Baar where it was informed about the proceedings against Mechel Carbon based on the claims of VTB Bank: (i) CHF 194.0 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 112.8 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. On January 8, 2015, Mechel Carbon rejected the proceedings by submission of two

Rechtsvorschlag (i.e., a motion exercising the right to refuse the procedure for compulsory execution). The proceedings were stopped. On February 16, 2015, Mechel Carbon received two claims of VTB Bank dated February 10, 2015 and court orders of canton Zug dated February 13,

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2015 with respect to the following amounts: (i) CHF 184.7 million and CHF 6.2 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Southern Kuzbass Coal Company under the credit facility agreement, and (ii) CHF 107.4 million and CHF 3.6 million resulting from a guarantee issued by Mechel Carbon in favor of VTB Bank as to the payment obligations of Yakutugol under the credit facility agreement. In court of canton Zug, VTB Bank is challenging Mechel Carbon s refusal to participate in the enforcement proceedings. The Cantonal Court of Zug asked Mechel Carbon to submit a statement of defense within seven days. Mechel Carbon has applied for the extension. The Cantonal Court of Zug has granted the extension until April 17, 2015. Statement of defense of Mechel Carbon has been filed. The hearings were suspended until July 5, 2016 based on the parties mutual request.

On January 7, 2015, Mechel Trading received the notice of Betreibungsamt of Baar where it was informed about the proceedings against Mechel Trading based on the claim of VTB Bank in the amount of CHF 51.6 million and CHF 1.3 million resulting from the guarantee issued by Mechel Trading in favor of VTB Bank under the payment obligations of Mechel. On January 8, 2015, Mechel Trading rejected the proceedings by submission of Rechtsvorschlag. The proceedings were stopped. On January 14, 2015, Mechel Trading received the notice of Betreibungsamt of Baar about the proceedings against Mechel Trading based on the claim of VTB Bank in the amount of CHF 694.9 million and CHF 50.1 million (interest) and CHF 2.3 million (penalty for the payment default) resulting from the guarantee issued by Mechel Trading in favor of VTB Bank under the payment obligations of Mechel. On January 19, 2015, Mechel Trading rejected the proceedings by submission of Rechtsvorschlag. The proceedings were stopped. On February 16, 2015, Mechel Trading received one claim of VTB Bank dated February 10, 2015 and court order of canton Zug dated February 13, 2015, with respect to the amount of CHF 747.3 million. In court of canton Zug, VTB Bank is challenging Mechel Trading s refusal to participate in the enforcement proceedings. The Cantonal Court of Zug asked Mechel Trading to submit a statement of defense within seven days. Mechel Trading has applied for the extension. The Cantonal Court of Zug has granted the extension until April 17, 2015. Statement of defense of Mechel Trading has been filed. The hearings were suspended until July 5, 2016 based on the parties mutual request.

On February 2, 2015, VTB Bank filed a lawsuit against Mechel with the Moscow Arbitrazh Court seeking recovery of principal and interest under the credit facility agreement in the amount of 50.2 billion rubles, of which principal amounts to 44.5 billion rubles, interest amounts to 3.2 billion rubles and penalties amount to 2.5 billion rubles. In turn, Mechel filed a lawsuit with the Moscow Arbitrazh Court seeking invalidation of the certain clauses of the credit facility agreement and the notice which was sent on its basis. These two cases were combined into one. On April 9, 2015, the Moscow Arbitrazh Court sustained the VTB Bank claims and dismissed our clai