

the BCG companies acquisition transaction, see note 27 to our consolidated financial statements in “Item 18. Financial Statements.”

The BCG companies will be included in our mining reporting segment.

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 detail in note 2 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, and our ability to do so is dependent upon continued negotiation with our banks, there is substantial doubt about our ability to continue as a going concern. We also note that we have been in material noncompliance with certain covenants of our major loan agreements with our banks. Our plans concerning these matters, including steps being taken to refinance and/or restructure the terms and conditions of our existing debt to extend maturities beyond 2009, are discussed in note 2 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 as outlined in note 2 to our consolidated financial statements in “Item 18. Financial Statements,” 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 to the carrying value of assets and/or liabilities relating to any potential impact of our not being able to refinance our debt obligations.

Servicing and refinancing of our indebtedness may materially adversely affect our cash flow.

We have a substantial amount of outstanding indebtedness, primarily consisting of the obligations we entered into in connection with the refinancing of our acquisition of Yakutugol and our acquisition of Oriel Resources. As of December 31, 2008, our consolidated total debt, including capital lease obligations, was \$5,438.3 million, with a short-term portion of \$5,164.3 million (including \$4,233.8 million with a loan covenant violation out of which \$1,563.6 million of the long-term debt was reclassified as short-term debt due to loan covenant violations). Our interest expense for the year ended December 31, 2008 was \$324.1 million, net of the amount capitalized.

Our leverage and the limits imposed by our debt obligations could have significant negative consequences, including limiting our ability to obtain additional financing, constricting our ability to invest in our business and placing us at a possible competitive disadvantage relative to less leveraged competitors which have greater access to capital resources.

We must generate sufficient cash flow in order to meet our debt service obligations and we cannot assure you that we will be able to meet such obligations. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payment, we would be in default under our indebtedness, including under cross-default provisions in our loan agreements.

If we do not generate sufficient cash flow from operations in order to meet our debt service obligations, we may have to undertake alternative financing plans to alleviate liquidity constraints, such as refinancing or restructuring our debt, reducing or delaying our capital expenditures or seeking additional capital. We cannot assure that any refinancing or additional financing would be available on acceptable terms. Our inability to generate sufficient cash

flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms could materially adversely affect our business, financial condition, results of operations and prospects.

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

Our ability to generate cash or obtain financing depends on many factors beyond our control, and we need cash and/or financing to carry out our capital improvements program, which is an important part of our business strategy. We spent \$1.2 billion during 2008 and expect to spend approximately \$840.0 million in 2009 on our capital improvements program. These capital expenditures include investments in Yakutugol OAO ("Yakutugol"), including those required to be made pursuant to the terms of the subsoil license for the undeveloped Elga coal deposit. We plan to spend about \$2.9 billion on our capital improvements program for the four-year period of 2009-2012. See "Item 4. Information on the Company – Capital Improvements Program." Our ability to fund planned capital expenditures will, in part, depend on our ability to generate cash in the future and possibility for obtaining banking financing. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Most of our current borrowings are from Russian and international banks and financial institutions. In the future, we may rely to a greater extent than currently on domestic sources of financing; however, we do not rule out the possibility of attracting financing from foreign capital markets and other foreign financing sources for our capital needs. It is possible that these international sources of financing, as well as Russian sources, may not be available in the future in the amounts we require or may be expensive. To meet our requirements, we will likely need to secure debt financing. However, we may not be able to access international capital markets or attract additional financing to enable us to fund our capital improvements program or fund our other liquidity needs.

International credit markets have experienced, and may continue to experience, high volatility and severe liquidity disruptions stemming from the effects of the current international financial and economic crisis. These and other related events have had a significant impact on the global capital markets, and the reduced liquidity in the global capital markets could limit our ability to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources might have an adverse effect on our business, financial condition and results of operations. See "– Risks Relating to the Russian Federation and Other Countries Where We Operate – Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the price of our shares and ADSs to suffer" and "– Risks Relating to the Russian Federation and Other Countries Where We Operate – Economic risks – The Russian banking system is still developing, and another banking crisis could place severe liquidity constraints on our business."

Inflation could increase our costs and decrease operating margins.

In 2008, the inflation rate was 13.3%, according to the Russian Federal State Statistics Service ("Rosstat"), the highest rate in any of the last five years, including 2007's rate of 11.9%. The prices for many of our products are denominated in U.S. dollars. As we tend to experience inflation-driven increases in certain of our ruble-denominated costs, including salaries, rents and fuel and energy costs, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise, assuming the ruble-to-dollar exchange rate remains constant. See "– Further volatility in the exchange rate of the ruble against the U.S. dollar may materially adversely affect our results of operations." In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia could increase our costs and have the effect of decreasing operating margins.

Wage inflation in Russia has increased our cost of doing business. According to Rosstat, the nominal average monthly wage from January through December 2008 was 25.2% higher than the corresponding period in 2007, and the inflation-adjusted average monthly wage grew by 9.7% from January through December of 2008, compared to a 17.2% increase during the same period in 2007. If wage inflation in Russia continues to increase, our labor costs will rise and our advantages with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid by us in Russia will be reduced or eliminated. See "– The steel, mining and ferroalloy industries are highly competitive, and we may not be able to compete successfully."

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

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

In addition, Russian companies are limited in their ability to effect share placements and have shares in circulation outside of Russia, including in the form of our ADSs and unregistered global depositary shares representing common shares (“GDSs”), due to Russian securities regulations. We have received permission from the FFMS for up to 40% of our common shares to be circulated abroad through depositary receipt programs, which was the maximum volume allowed at that time by Russian law. Current regulations on the procedure for issuance of authorizations on placement and circulation of securities outside the Russian Federation provide that no more than 30% of a Russian company’s shares of a particular class or type may be placed and/or circulated abroad. Until recently, this limit was set by the FFMS at 35% and it is unclear whether the FFMS’s approval of an amount greater than 35% or 30% prior to the establishment of these lower limits will be respected, or whether the newly enacted 30% limit overrides prior FFMS permissions for higher amounts. Until this is clarified, we have instructed our depositary not to allow for the conversion of more than 35% of our common shares into ADSs and GDSs. Given that our ADSs and GDSs currently account for approximately 35% of our common shares, we cannot raise additional equity financing through placement of common shares in the form of depositary receipts. We have received FFMS permission for a total of 41,627,074 preferred shares to be circulated in the form of global depositary receipts, representing 30% of the total number of preferred shares currently authorized for issuance. Furthermore, it is not clear whether Deutsche Bank Trust Company Americas (the “depositary”) may be forced to cancel and convert some of our ADSs and GDSs into a corresponding number of common shares. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

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

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

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

Our reporting currency is the U.S. dollar. Our products are typically priced in rubles for Russian domestic sales (or in other local currencies for domestic sales outside of Russia, as the case may be) and in U.S. dollars (and, to a lesser extent, euros) for export sales, whereas the majority of our direct costs are incurred in rubles and, to a lesser extent, in other local currencies where our operations are based. Depreciation in real terms of the ruble against the U.S. dollar results in a decrease in our costs relative to our revenues, while at the same time appreciating our U.S. dollar-denominated liabilities. Appreciation in real terms of the ruble against the U.S. dollar has the opposite effect. In 2008, the ruble depreciated in real terms against the U.S. dollar by 2% as compared with 2007, according

to Rosstat, and by 1.2% as compared with 2007, according to the Ministry for Economic Development of the Russian Federation.

In the event of an increase in real terms of our dollar-denominated liabilities or our inability to decrease the relative proportion of dollar-denominated liabilities on our balance sheet in favor of ruble-denominated liabilities, further real depreciation of the ruble against the U.S. dollar may materially adversely affect our financial condition. Conversely, appreciation in real terms of the ruble against the U.S. dollar, which was the prevailing trend from 2002-2007, may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase enough to compensate for the increase in real terms in our ruble-denominated expenditures. In order to mitigate such risks we maintain a correlation between our export revenues in foreign currencies and our liabilities in foreign currencies.

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

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

We could be materially adversely affected if our lenders accelerate our debt due to our current and future failures to comply with our loan agreements.

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

In 2008 and early 2009, we have been in breach of certain covenants of certain of our loan agreements representing 78.9% of our indebtedness outstanding as of December 31, 2008. Certain of these breaches have been remedied and certain others, particularly relating to maintenance of financial ratios, are continuing. These agreements entitle our lenders to demand accelerated partial or full repayment of outstanding interest and principal. Certain of our loan agreements of which we are in breach contain cross-default provisions. In early 2009 we have received a request from WestLB AG ("WestLB") addressed to Voskhod Chrome in March 2009 for an early repayment of the outstanding amount of \$84.8 million due to the continuing breach of change of control provision, which has not been waived by the lenders, and a number of other financial covenants. We have agreed with WestLB to repay the full amount outstanding on June 30, 2009, which we intend to do on that date. This request for early repayment received from WestLB has not so far resulted in cross-defaults under our other loans. Maintaining the integrity of our debt portfolio materially depends on our ability to negotiate waivers and extensions from our creditors. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources" and "Item 5. Operating and Financial Review and Prospects—Description of Certain Indebtedness."

Our ability to continue to service, repay and refinance our indebtedness and come back into compliance with our financial and other loan covenants will depend on our ability to generate cash in the future and lenders, credit decisions. This, in turn, is subject to general economic, financial, competitive, legislative and other factors that are

beyond our control. We cannot assure you that our breach of financial and other covenants in our loan agreements will not result in new and renewed demands from our lenders for acceleration of our loan repayment obligations of related litigation, including as a result of cross-defaults. If we fail to come back into compliance with our financial and other loan covenants contained in any of our loan agreements, including compliance with financial ratios or failure to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of our current and future breaches of our loan agreements or amend our loan agreements, such failure could be deemed by the lenders to be an event of default which could result in, among other things, acceleration of repayment of principal and interest under the relevant loan agreement and any other loan agreement under which a default on such instrument would trigger a cross-default, reduced opportunities for future borrowing, debt service obligations in excess of our ability to pay, liability for damages or inability to further develop our business and pursue our strategic objectives, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects and you could lose your entire investment in ADSs and shares if we are forced to seek relief under applicable bankruptcy or insolvency procedures.

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

Management identified six 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, 2008. The material weaknesses in our internal control over financial reporting identified for the year ended December 31, 2008 are described in "Item 15. Controls and Procedures." Because of the effect of these material weaknesses, our auditors have opined that we have not maintained effective internal control over financial reporting as of December 31, 2008 under Section 404 of the Sarbanes-Oxley Act of 2002.

Notwithstanding the steps we have taken and continue to take that are designed to remedy each material weakness identified 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 depend on key accounting staff for the preparation of U.S. GAAP financial information. Given the competition for such personnel, we may be unable to retain our key accounting staff, which could disrupt our ability to timely and accurately report U.S. GAAP financial information.

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

Risks Relating to Our Business and Industry

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

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

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

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

Power demand depends on its consumption by the real economy. In Russia, the steel and mining industries are major consumers of power and the recent declines in production by steel and mining companies has impacted demand for power. Therefore, the market demand for the power produced by our power business is affected by many of the same factors and cycles that affect our mining and metals businesses. Due to government price regulation and the current shortage of power generation capacity in Russia, reduced demand for power has not impacted power prices. However, as Russian regulated power prices are set in rubles, if power prices are not increased steadily they may decline on a real dollar basis when ruble devaluation and inflation are taken into account.

Prices for our products, including coal, iron ore, metals and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the production of our products, fluctuate substantially over relatively short periods of time and expose us to commodity price risk. We do not use options, derivatives or swaps to manage commodity price risk. We use our vertically integrated business model and intersegment sales, as well as short-term and long-term purchase and sales contracts with third-party suppliers and customers, to manage such risk. In addition, the length and pricing terms of our sales contracts on certain types of products are affected and regulated by orders issued by Russian antimonopoly authorities. We cannot ensure that our strategies and contracting practices will be successful in managing our pricing risk or that they will not result in liabilities because of future volatility in these markets. If our strategies to manage commodity price risk and the impact of business cycles and fluctuations in demand are not successful, it could have a material adverse impact on our business, results of operations, financial condition and prospects.

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

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

Our competitiveness is based in part on our operations in Russia and other former Eastern Bloc countries having a lower cost of production than competitors in higher-cost locations. We have been facing a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. See “– Recent and potential developments in the Russian rail transportation sector expose us to uncertainties regarding

transportation costs of raw materials and steel products” and “– Inflation could increase our costs and decrease operating margins.” If these production costs continue to increase in the jurisdictions in which we operate, our competitive advantage will be diminished, which could have a material adverse effect on our results of operations and financial condition.

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

While we expect continued growth of demand in the Russian market for specialty long products, our strategy to expand these sales substantially is dependent on our ability to increase our exports of these products to other countries, particularly the E.U. countries. We face a number of obstacles to this strategy, including trade barriers and sales and distribution challenges as well as restrictions imposed by antimonopoly legislation and regulatory orders. See “Item 8. Financial Information – Litigation – Antimonopoly.”

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal, is substantially dependent on our ability to increase our exports of these products from our coal assets in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries. In order to implement this strategy, we must complete the tasks of expanding the cargo-handling capacity of our Port Posiet OAO (“Port Posiet”) seaport on the Sea of Japan, building a specialized coal transshipment seaport at Vanino in Russia’s Far East (“Port Vanino”) and making the capital improvements necessary for the development of our Elga coal deposit. See “– We will require a significant amount of cash to fund our capital improvements program.” Our ability to increase coking coal export volumes is also limited by our ability to first satisfy domestic Russian coal demand, pursuant to a FAS directive issued to us in August 2008. See “– Regulation by the Federal Antimonopoly Service could lead to sanctions with respect to the subsidiaries we have acquired or established, our prices, our sales volumes or our business practices.” If we fail to manage successfully the obstacles and tasks involved in the implementation of our export sales expansion strategy, it could materially adversely affect our prospects.

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

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

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

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

acceptable to us and successfully integrate them into our group. We often compete with Russian and international companies for acquisitions, including subsoil licenses.

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

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

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

We have acquired and established businesses in countries that represent new operating environments for us and which are located at a great distance from our headquarters in Russia. These businesses conduct operations in accordance with local customs and laws. For example, in connection with our recent acquisition of the BCG companies, a group of companies with coal-mining assets and operations in West Virginia, and our establishment of Mechel Bluestone Inc., a Delaware corporation that holds the BCG companies, we now have significant operations, assets and employees in the United States which are subject to U.S. federal and state laws and regulations. See “– Our existing arrangements with trade unions may not be renewable on terms favorable to us, and our operations could be materially adversely affected by a worsening of labor relations in the future,” “– We have assumed liabilities with respect to postretirement benefits for our U.S. employees, which could be more burdensome if certain factors beyond our control are changed or corrected,” “– Other Countries Where We Operate – The BCG companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters, which impose significant costs on us. U.S. regulatory agencies have the authority to temporarily or permanently close the BCG companies’ mines or modify their operations, which could materially adversely affect our business. Our operations may impact the environment or cause or contribute to contamination or exposure to hazardous substances, which could result in material liabilities to us,” “– Other Countries Where We Operate – Changes in U.S. regulations and the passage of new legislation in the United States could materially adversely affect the BCG companies’ operations, increase our costs or limit our ability to produce and sell coal in the United States,” “– Other Countries Where We Operate – We must obtain and maintain numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain or renew necessary permits and approvals could negatively impact our business,” “– Other Countries Where We Operate – We may be subject to significant mine reclamation and closure obligations with respect to our U.S. coal mining operations,” “– Other Countries Where We Operate – Extensive environmental regulation in the United States, including the Clean Air Act and similar state and local laws, affect our U.S. customers and could reduce the demand for coal as a fuel source and cause our sales to decline” and “– Other Countries Where We Operate – Mining in the Northern and Central Appalachian region of the United States is more complex and involves more regulatory constraints than in other U.S. geographic areas.” Thus, it may take some time to implement our operating standards and it is possible that for a certain period of time we may face some uncertainties with respect to the operational and financial needs of these businesses, which may hinder our integration efforts.

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

For example, in the case of the West Virginia-based BCG companies, which we acquired in May 2009, though we performed a pre-acquisition review of the companies’ assets, liabilities, operations, legal matters and financial condition, the transaction was completed very recently and our review of the new acquisition is ongoing. Though we

believe we have identified in this document the current material risks associated with the BCG companies in the context of our group, we may not have yet fully identified the extent of the historical, current and future costs related to the BCG companies' assets, liabilities, operations, legal matters and financial condition, including health, safety and environmental liability, problems with permits and regulatory compliance, labor issues and potential litigation. As noted above, implementing our operating standards at newly acquired companies takes time, and our assumptions regarding the liability and cost of operating U.S. assets and doing business in the United States are subject to change as we integrate the BCG companies into our group. If more liabilities and costs are associated with the BCG companies' acquisition than we have assumed, including liabilities and costs that affect the calculation of coal reserves owned or controlled by the BCG companies, we may not realize the investment benefits, operational synergies and marketing advantages we expect from the BCG acquisition, which could materially adversely affect our business, results of operations, financial condition and prospects.

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

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

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

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

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

The Land Code of the Russian Federation, as amended, which was enacted on October 25, 2001 (the "Land Code"), requires privatized Russian companies to either purchase or lease the land on which they operate by January 1, 2010. In accordance with the current legislation the repurchase price of land plots held under special title of perpetual use is set in the amount of 2.5% of the cadastral value of such land plots. We estimate that the cost for us to purchase the land on which we operate is \$35.0 million. This estimate excludes certain land plots on which Southern Kuzbass Coal Company OAO ("Southern Kuzbass Coal Company") operates, which have not been included in the state cadastral valuation. A bill has been introduced in the State Duma, Russia's Parliament, to extend the term of special title of perpetual use up until January 1, 2013. If this bill does not become law and if we are required to purchase the land plots on which we operate by January 1, 2010 as provided under the current Land Code it may have a material adverse effect on our financial condition.

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

In 2008, our Russian operations purchased approximately 1.8 billion kilowatt-hours ("kWh") of electricity, representing 55% of their needs. Domestic electricity prices are currently regulated by the Russian government, but the government is in the process of liberalizing the wholesale electricity market and moving from regulated pricing

to a market-based system. This could lead to higher electricity prices. In addition, according to a 2008 long-term macroeconomic forecast made by the Ministry for Economic Development of the Russian Federation, electricity prices for industrial users are expected to reach 6.9 cents per kWh in 2009 and from 10 to 15 cents per kWh by 2020. In 2008, our average cost of electricity was 5.8 cents per kWh. Assuming a price of 6.9 cents per kWh in 2008, our Russian operations would have incurred approximately \$19.8 million in additional costs. Further price increases for electricity may also occur in the future as the industry is controlled to a greater extent by the private sector. If we are required to pay higher prices for electricity in the future, our costs will rise and our business and prospects could be materially adversely affected.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity at our own co-generation facilities, from Gazprom OAO ("Gazprom"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian government. These prices have been rising over the last few years. The average price for industrial consumers was approximately \$65.3 per thousand cubic meters (\$1.9 per thousand cubic feet) in 2008, and increased by 25.0% compared with 2007. Further, Russian domestic natural gas prices are significantly below Western European levels, which presently helps to provide us with a cost advantage over our competitors, an advantage which is expected to diminish as Russian domestic gas prices approach Western European levels. The Ministry for Economic Development of the Russian Federation has forecasted natural gas prices in the range of \$223 to \$224 per thousand cubic meters (\$6.3 to \$6.4 per thousand cubic feet) in 2015. If we are required to pay higher prices for gas in the future, our costs will rise and our business, financial condition and prospects could be materially adversely affected.

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

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian rail system is controlled by Russian Railways, an open joint-stock company wholly owned by the Russian government. Russian Railways is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation. These rail freight prices are subject to annual adjustment based on, among other factors, inflation and the funding requirements of Russian Railways' capital investment program, which is in turn affected by the acute need to upgrade Russian Railways' rolling stock, track infrastructure and passenger- and cargo-handling facilities.

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

In December 2007, our subsidiary Mecheltrans OOO concluded a contract to arrange transportation and forwarding of cargoes with the railcar fleet owned by First Freight Company. Our freight volume transported by First Freight Company's railcars amounted to 11.0 million tonnes or RUR 7.1 billion in 2008.

In 2008, tariffs were indexed three times, which resulted in a 23% average tariff increase.

Since January 10, 2009, all tariffs have been increased by an additional 5%.

If rail freight prices continue to increase, or if there is a disruption in transportation of our materials and products due to a shortage of available working rolling stock, it could adversely affect our business, financial condition, results of operations and prospects.

In connection with the downturn in economic activity due to the global financial crisis, recently the shortage of rail freight rolling stock has eased somewhat. However, as the economic situation improves, the rolling stock deficit is expected to worsen, which may negatively affect our business.

On May 6, 2008, an interdepartmental Russian government commission on structural reform of the rail transportation sector, headed by the Russian Ministry of Transportation, approved draft amendments to the Federal

Law “On Rail Transportation” for further submission to the State Duma. On February 16, 2009, a committee of the Russian Union of Industrialists and Entrepreneurs considered certain provisions of the draft bill at the organization’s convention. The text of the full draft has not been made public. Changes to Russian legislation regulating the rail transportation sector could result in further increases in our freight shipment costs, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

We face numerous protective tariffs, duties and quotas which reduce our competitiveness in, and limit our access to, particular markets. Several key steel importing countries currently have import restrictions in place on steel products or intend to introduce them in the future. The E.U. has a quota system in place with respect to Russian steel imports, which affected our exports to ten countries in Central and Eastern Europe and the Baltic states (Estonia, Lithuania and Latvia) that joined the E.U. in 2004 as well as to Romania and Bulgaria, which joined the E.U. in 2007. Our sales into the E.U. constituted approximately 24% of our steel segment revenues and approximately 37% of our steel segment export revenues in 2008. The export of our steel into the E.U. is an important part of our growth strategy. If E.U. quotas are not increased in line with our sales growth objectives, our ability to expand our sales in the E.U. and pursue our growth strategy could be limited. In 2008, approximately 12% of our steel segment’s export sales revenues were derived from sales of steel products that were subject to import restrictions. In addition, the E.U. has imposed antidumping duties on certain of our steel exports.

Our ferroalloys business is also subject to export restrictions. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the E.U. of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. We did not supply any ferrosilicon to the E.U. in 2008.

See “Item 4. Information on the Company – Steel Business – Trade restrictions” and “Item 4. Information on the Company – Ferroalloys Business – Trade restrictions.”

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

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5-15% of value. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2008. In January 2009, the Russian government increased the import duties on certain types of steel products (corrosion-resistant steel and some other steel products) from 5% to 15%. These tariffs and duties may be reduced or eliminated in the future, which could materially adversely affect our revenues and results of operations.

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

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

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

Estimates of our reserves are subject to uncertainties.

The estimates of our reserves contained in this document are subject to uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in

the future. Actual production results may differ significantly from reserve estimates. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity.

In addition, the calculation of reserves of the Elga coal deposit, which we acquired in October 2007 along with our acquisition of Yakutugol, is subject to certain risks due to the license obligations and capital costs involved in developing required infrastructure and commencing production and the nature of the undeveloped Elga coal deposit. See “Item 4. Information on the Company – Mining Business – Mineral reserves (coal, iron ore and limestone) – Coal.”

We are subject to mining risks.

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

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

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

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

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

Furthermore, the risk of occurrence of these hazards is exacerbated by the significant level of wear of the equipment of our mining enterprises. We are conducting a program of phased replacement and refurbishment of obsolete equipment in order to meet safety requirements at our most dangerous facilities. See “Item 8. Financial Information – Litigation – Environmental and safety.”

On May 30, 2008, there was a shaft cave-in at the Lenin underground mine, an asset of our subsidiary Southern Kuzbass Coal Company in Kemerovo region, Russia. Five of our workers were killed and mining operations were suspended for 17 calendar days, resuming on June 16, 2008. The causes of the accident were investigated by the Kemerovo regional office of the Russian Federal Service for Environmental, Technological and Nuclear Supervision (“Rostekhnadzor”). Following its investigation, Rostekhnadzor issued a report. Rostekhnadzor found that the primary cause of the accident was workers’ gross breach of safety rules.

On July 29, 2008, a methane flash occurred at the Lenin mine. All 41 miners who were in the area of the explosion were evacuated to the surface; however, 17 persons were injured. Mining operations were suspended for 67 calendar days, resuming on October 4, 2008. The Kemerovo regional office of Rostekhnadzor conducted an investigation and issued a report, finding that the flash was caused by ignition of a hazardous concentration of methane in the atmosphere in a mined-out section of the mine that arose through extraction from methane-containing mine faces.

In 2008, we took steps to improve safety at the Lenin mine. We commissioned safety inspections, improved safety procedures and monitoring and provided our engineering and technical personnel with additional training and instruction on mining safety. After the July 2008 methane flash, we also revised our mining operations plan and production target for the remaining part of 2008. See “Item 8. Financial Information – Litigation – Environmental and safety.”

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

Our operations and properties are subject to environmental, worker protection and industrial safety and other laws and regulations in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of hazardous sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including some requiring the clean-up of contamination and reclamation, such as requirements for cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

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

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2008, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of \$71.6 million for asset retirement obligations, consistent with U.S. GAAP requirements. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

Also, in the course, or as a result, of an environmental investigation by Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to halt for a 90-day period. We have been cited in Russia for various violations of environmental regulations in the recent past, including during the 2008 financial year, and we have paid certain fines levied by regulatory authorities in connection with these infractions. Though our production facilities have not been ordered to suspend operations due to environmental violations during the respective periods since we acquired or established them, there are no assurances that environmental protection authorities will not seek such suspensions in the future. In the event that production at any of our facilities is partially or wholly suspended due to this type of sanction, our business could suffer and our operating results could be negatively affected.

The assets and operations of our newly acquired BCG companies based in West Virginia are subject to U.S. environmental and other regulatory risks. See “– Other Countries Where We Operate – The BCG companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters, which impose significant costs on us. U.S. regulatory agencies have the authority to temporarily or permanently close the BCG companies’ mines or modify their operations,

which could materially adversely affect our business. Our operations may impact the environment or cause or contribute to contamination or exposure to hazardous substances, which could result in material liabilities to us," "– Other Countries Where We Operate – Changes in U.S. regulations and the passage of new legislation in the United States could materially adversely affect the BCG companies' operations, increase our costs or limit our ability to produce and sell coal in the United States," "– Other Countries Where We Operate – We must obtain and maintain numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain or renew necessary permits and approvals could negatively impact our business, "– Other Countries Where We Operate – We may be subject to significant mine reclamation and closure obligations with respect to our U.S. coal mining operations, "– Other Countries Where We Operate – Extensive environmental regulation in the United States, including the Clean Air Act and similar state and local laws, affect our U.S. customers and could reduce the demand for coal as a fuel source and cause our sales to decline" and "– Other Countries Where We Operate – Mining in the Northern and Central Appalachian region of the United States is more complex and involves more regulatory constraints than in other U.S. geographic areas."

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

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

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

The assets and operations of our newly acquired BCG companies based in West Virginia are subject to risks relating to permits required under U.S. federal and state laws. See "– Other Countries Where We Operate – We must obtain and maintain numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain or renew necessary permits and approvals could negatively impact our business."

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

Our Chief Executive Officer, Igor Zyuzin, directly and indirectly owns approximately 66.76% of our common shares and may also acquire additional shares from time to time in compliance with current Company's rules. Except in certain cases as provided by the Federal Law "On Joint-Stock Companies," dated December 26, 1995, as amended (the "Joint-Stock Companies Law"), resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by a majority vote at a shareholders' meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority vote of shares represented at such a shareholders' meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions in case if other shareholders do not participate in the meeting. Thus, our controlling shareholder can take actions that may conflict with the interests of other holders of our shares and ADSs.

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

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

Moreover, competition in Russia, and in the other countries where we operate, for personnel with relevant expertise is intense due to the small number of qualified individuals and, as a result, we attempt to structure our compensation packages in a manner consistent with the evolving standards of the Russian labor market. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Regulation by the Federal Antimonopoly Service could lead to sanctions with respect to the subsidiaries we have acquired or established, our prices, our sales volumes or our 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 Russian Federal Antimonopoly Service (the “FAS”) or its predecessor agencies. Relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without such approval or notification. This legislation is vague in certain parts and subject to varying interpretations. If the FAS were to conclude that an acquisition of an existing company or the creation of a new company was done in contravention of applicable legislation and that competition has been limited as a result, it could seek redress, including invalidating the transactions that led to the limitation of competition, obliging the acquirer to perform activities to restore competition, and seeking the dissolution of the company created as a result of reorganization. Any of these actions could materially adversely affect our business and our results of operations.

As of April 22, 2009, nine of our companies were included by the FAS in its register of entities with a market share exceeding 35% in the relevant market or with a dominant position on a certain market, including:

- *Beloretsk Metallurgical Plant OAO* – as controlling 100% of the market for local telephony services in the city of Beloretsk;
- *Chelyabinsk Metallurgical Plant OAO (“Chelyabinsk Metallurgical Plant”)* – as controlling more than 65% of the market for forgings made of stainless steel ingots in the Russian market;
- *Southern Urals Nickel Plant OAO (“Southern Urals Nickel Plant”)* – as controlling more than 65% of the market for nickel in sulfate and hydroxide in the Russian Federation;
- *Izhstal OAO (“Izhstal”)* – as controlling more than 65% of the market for graded high-speed steel and its substitute and the market for small shaped graded high-speed steel in the Russian Federation;
- *Vyartsilya Metal Products Plant ZAO (“Vyartsilya Metal Products Plant”)* – as controlling more than 65% of the market of railroad transportation of cargo for third parties and companies on the track section from Vyartsilya village to Vyartsilya station;
- *Kuzbass Power Sales Company OAO (“Kuzbass Power Sales Company”)* – as controlling more than 50% of the electricity trading market in the Kemerovo region;
- *Mechel-Energo OOO (“Mechel-Energo”)* – as controlling more than 50% of the market for the trading of electricity in the cities of Mezhdurechensk, Myski and Novokuznetsk;
- *Yakutugol OAO*, including its subsidiaries *Dzhebariki-Khaya Mine OAO* and *Kangalassk Open Pit Mine OAO* – as controlling more than 65% of the coal market of the Sakha Republic (an administrative region of Russia in eastern Siberia, also known as Yakutia) and as holding a dominant market position as the sole

supplier of Far East Generating Company OAO (“Far East Generating Company”), a power plant designed to consume only the type of coal produced by Yakutugol and its subsidiaries; and

- *Moscow Coke and Gas Plant OAO* – as controlling 100% of the market for cargo transportation services on the company’s rail siding in the Lenin District of Moscow region from the Obmennaya station to the Zavodskaya station.

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

In 2008, in furtherance of the FAS’s mandate to exercise state control over economic concentration, the FAS considered applications made by our companies with the aim of obtaining permissions required under Russian law and issued a number of directives to a number of our companies placing certain restrictions on our business practices.

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

- to support certain production volumes and product lines;
- to provide, to the extent possible, equal supply terms to all customers without discrimination against companies not forming part of the Mechel-Invest group of companies;
- not to restrict other companies from supplying coking coal to the same geographical area of operations; and
- to notify the FAS prior to any increase in domestic prices of coking coal, steam coal and coking coal concentrate, if such increase amounts to more than 10% of the relevant price used 180 days before the date such increase is planned to take place, with submission to the FAS of the financial and economic reasoning for the planned increase of prices.

The above directive is not in effect currently as Mechel-Invest does not hold Yakutugol’s shares as of June 30, 2008, and was liquidated by a way of the merger to Mechel Trading House on December 31, 2008.

A new directive with substantially identical requirements was issued to Mechel, Southern Kuzbass Coal Company and Korshunov Mining Plant OAO (“Korshunov Mining Plant”) on May 13, 2008, as described below.

Additionally, on March 6, 2008, we received from the FAS two directives relating to the same subsidiaries as the May 13, 2008 directive, with one of them also being addressed to Elgaugol. These directives lost effect. However, on October 10, 2008, the FAS issued new directives to Mechel Mining Management ordering Mechel Mining Management, Yakutugol and Southern Kuzbass Coal Company to follow the FAS’s requirements in place of the original addressees. These directives contain requirements similar to the ones described in the previous paragraph, except for the requirement for prior notification of contemplated price increases. Under these two directives, the companies are required to provide a justification of increases in the price of coking coal concentrate if the change in price is 10% more than the weighted average price over the previous six months.

Furthermore, in connection with the establishment of Mechel Mining, the subsidiary into which certain mining assets are being consolidated, we received a directive from the FAS dated May 13, 2008, which contains requirements as to the activities of Mechel, Southern Kuzbass Coal Company and Korshunov Mining Plant, which have been deemed by FAS to be a group of companies holding a dominant position on the Russian coking coal market. The requirements repeat those described above pursuant to the directive issued to Yakutugol, Southern Kuzbass Coal Company and Mechel-Invest on April 14, 2008. Additionally, on June 23, 2008 the FAS issued two more directives, which were addressed to our subsidiary holding company Mechel Mining and relating to its subsidiaries Yakutugol and Southern Kuzbass Coal Company. The requirements under these two directives substantially repeat those described above.

In addition, in connection with our transfer of management of Beloretsk Metallurgical Plant, Izhstal, Chelyabinsk Metallurgical Plant and Urals Stampings Plant to Mechel Management, in 2008 FAS issued four directives addressed to Mechel Management. Furthermore, in connection with our transfer of management of Southern Urals Nickel Plant and Bratsk Ferroalloy Plant to Mechel Ferroalloys Management and the consolidation of our ferroalloy assets under our subsidiary Oriel Resources, in October 2008 FAS issued two directives addressed to Mechel Ferroalloys Management and one directive addressed to Oriel Resources, and in November 2008 FAS issued one additional directive addressed to Mechel. The requirements under all eight of these directives are substantially similar to those described above, except that they relate to our production and sales of ferrosilicon, nickel products, stampings and certain other steel products.

In the event of breach of the terms of business conduct set forth by the FAS by our companies, the FAS may seek to impose liability for violation of antimonopoly legislation and of administrative legislation, which would materially adversely affect our business and results of operations. Such liability may take the form of 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 resulting in damage over one million rubles. 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, results of operations, financial condition or 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 and prospects.

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

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

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

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

Russian law does not protect us against, and does not allow us to include in our charter, protections against unfriendly and other similar actions by minority shareholders. For example, minority shareholders holding as little as a single share in a company have standing under Russian law to bring claims against the company, challenge decisions of governing bodies. These features of Russian corporate law are often abused by minority shareholders, who can bring claims in local courts seeking injunctions and other relief for which, as a practical matter, we may not receive notice. Any such actions by minority shareholders, if resolved against us, could have a material adverse effect on our business, results of operations and financial condition.

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

As of December 31, 2008, approximately 75% of our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us and we consider our relations with our employees to be good, under Russian law unions have the legal right to strike and other Russian companies with large union representation have been recently affected by interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relations with our labor force and trade unions worsen in the future. Although currently at all our Russian businesses our collective bargaining agreements have been extended for a period of at least one year from the fourth quarter of 2008 to the first quarter of 2009, if employees are dissatisfied with their terms, our business and results of operations could be materially adversely affected.

Our risks relating to trade union relations may be increased by our May 2009 acquisition of the BCG companies. Approximately half of the BCG companies' workforce is represented by the United Mine Workers of America ("UMWA") labor union. Though we believe the BCG companies have a good relationship with the UMWA, there are no assurances that our acquisition of the BCG companies will not be detrimental to that relationship. Our U.S. employees have the right at any time under the U.S. National Labor Relations Act to form or affiliate with a union and the current presidential administration in the United States has indicated that it will support legislation that may make it easier for employees to unionize. Any further unionization of employees could adversely affect the stability of our production and reduce our profitability. Additionally, due to the increased risk of strikes and other work-related stoppages that may be associated with union operations in the coal industry, our competitors who operate without union labor may have a competitive advantage in areas where they compete with our unionized operations.

We have assumed liabilities with respect to postretirement benefits for our U.S. employees, which could be more burdensome if certain factors beyond our control are changed or corrected.

With the acquisition of the BCG companies, we have assumed long-term liability with respect to pension obligations and postretirement welfare benefit plans. The BCG companies contribute to multiemployer defined benefit pension plans sponsored by the UMWA. In the event of our partial or complete withdrawal from any multiemployer plan which is underfunded, we would be liable for a proportionate share of such plan's unfunded vested benefits. In the event that any other contributing employer withdraws from any plan which is underfunded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then we, along with the other remaining contributing employers, would be liable for our proportionate share of such plan's unfunded vested benefits. Assessment of withdrawal liability could adversely affect our cash flow and reduce our profitability, and could materially adversely affect our financial condition.

Our postretirement medical obligations have been estimated based on actuarial assumptions, including actuarial estimates, assumed discount rates, estimates of life expectancy, and changes in healthcare costs. If our assumptions relating to these benefits change in the future or are incorrect, we may be required to record additional expenses, which would reduce our profitability. In addition, future regulatory and accounting changes

relating to these benefits could result in increased obligations or additional costs, which could also have a material adverse impact on our cash flows, results of operations or financial condition.

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

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our Russian production facilities are not insured, and we have no coverage for business interruption or for third-party liability, other than customary insurance coverage against the risks associated with our international trading operations and sales as well as the business in which we operate, 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. Furthermore, we cannot confirm 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, results of operations and financial condition.

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

Businesses of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to share issuances, share disposals and acquisitions, mandatory buy-out offers, valuation of property, interested party transactions, major transactions, decisions to transfer licenses, meetings of governing bodies, other corporate matters and antimonopoly issues that, if successfully challenged on the basis of noncompliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and our corporate decisions, restrictions on voting rights or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to defend successfully any challenge brought against such actions, decisions or transactions, and the invalidation of any of them or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Shares and the Trading Market

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

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

A court interpreting Russian law may treat the depositary as the beneficial owner of the shares underlying the ADSs. This is different from the way other jurisdictions treat ADSs. In the United States, although shares may be held in the depositary's name or to its order, making it a "legal" owner of the shares, the ADS holders are the "beneficial," or real, owners. In U.S. courts, an action against the depositary would not result in the beneficial

owners losing their shares. Russian law does not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the depositary in whose name the shares are held, not the rights of ADS holders, to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest.

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

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

In addition, although securities regulations expressly permit the depositary to split the votes with respect to the shares underlying the ADSs, as the case may be, 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.

The price of our shares and ADSs may be highly volatile.

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

- fluctuations in our operating results and those of other Russian and international mining, steel, ferroalloys and power companies, for the first quarter of 2009, as was seen after reporting of our operating results;
- fluctuations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by us or our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia or other countries where we have operations; or

- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges and stock exchanges in developed markets.

ADS holders may be unable to repatriate their earnings.

Dividends that we may pay in the future on the shares represented by the ADSs are calculated in Russian rubles and may be declared and paid to the depositary in rubles. Such dividends will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the depositary's fees and expenses. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in the currency markets. Although there is a developing market for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is not guaranteed.

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

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

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

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

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

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

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

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

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

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

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, Russian 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 Russia. However, although we take responsibility for compiling and extracting the data, we have not independently verified this information. In addition, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries.

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

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

Many financial indices in Russia and other emerging markets, as well as developed markets, have declined significantly since the summer of 2008, and continue to be depressed as of the date of this document. Continued volatility in the United States, Russian and other securities markets stemming from the global financial crisis or other factors may continue to adversely affect the price of our shares and ADSs.

Economic risks

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

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

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

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

Recently, the Russian economy has experienced the negative influence of the global financial and economic crisis, which has led to a substantial decrease in the gross domestic product's growth rate, ruble depreciation and domestic demand decline. The Russian government has accumulated a significant "stabilization fund" and the CBR has considerable hard currency reserves, which some observers believe will soften the impact of the economic crisis on the Russian economy. However, since the depth and duration of the global economic crisis, and the crisis's impact on Russia, are not yet clear, it is possible that the Russian economy could be impacted more severely than expected. Further economic instability in Russia could have a material adverse effect on our business, financial condition and results of operations.

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

The Russian banking sector has steadily developed, as demonstrated by the growing presence of prominent international banks in Russia, as well as the consolidation of the Russian banking system and the increased presence of state-owned banks. However, many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms.

The CBR has increased its supervision of banks and has suspended a number of bank licenses for violation of its banking regulations. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Prior to the onset of the current world financial and economic crisis, there had been a rapid increase in lending by Russian banks, which many believed was accompanied by a deterioration in the credit quality of the borrowers. In addition, a previously robust domestic corporate debt market led to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, leading to further deterioration in the risk profile of Russian bank assets. In addition, since Russian banks generally have lower capital adequacy requirements, the banking sector could be more susceptible than the Western banking system to the current market downturn and economic slowdown, including due to Russian corporate defaults that may occur.

In 2008, events in the Russian banking industry unfolded in line with the developing world banking crisis, which was triggered by a mid-September 2008 liquidity crunch, and at times has included all the classic banking crisis traits of deposit runs, a credit crunch and ongoing currency pressure. The current financial crisis is affecting all Russian banking institutions. The initial liquidity concerns that emerged in mid-September have since evolved into a full-blown credit crunch, as the situation with banking sector capitalization – both in terms of deposits and wholesale funding – has deteriorated.

Ongoing sector pressure is likely to result in a dramatic slowdown in lending growth, deteriorating asset quality and significant changes to the current structure. In the near future, the stability of the banking sector in Russia will depend on steps taken towards recovery from the world financial crisis and the scale of the Russian government's support.

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

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

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

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

Global credit markets and the global capital markets have recently experienced liquidity disruptions. See “– Risks Relating to Our Financial Condition and Financial Reporting – We will require a significant amount of cash to fund our capital improvements program” and “– The Russian banking system is still developing, and another banking crisis could place severe liquidity constraints on our business.” Turmoil in the international credit markets, the recession in the economies and the collapse or near-collapse of several large financial institutions have resulted in increased volatility in the securities markets in many countries, including Russia. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Russia is also one of the world's largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by

any of its principal export markets. See “– Risks Relating to Our Business and Industry – We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our results of operations and financial condition.”

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, we could be materially adversely affected by a prolonged downturn affecting the Russian or global economy. In addition to reduced demand for our products, we may experience increases in accounts receivable and bad debt among our customers, some of whom may face liquidity problems and potential bankruptcy. Our suppliers may significantly raise their prices, eliminate or reduce trade financing or reduce their output. A decline in product demand, an decrease in collectability of accounts receivable or substantial changes in the terms of our suppliers’ pricing policies or financing terms, or the potential bankruptcy of our customers or contract counterparties may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value, which could have a material adverse effect on our financial condition and results of operation. See note 3(n) to our consolidated financial statements in “Item 18. Financial Statements.”

Political and social risks

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

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

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

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

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

Shortage of qualified personnel could materially adversely affect our business, financial condition, results of operations and prospects.

Currently the labor market does not suffer from an acute shortage of qualified labor. But in the future we might face such a challenge. It could be caused by the decline in the working age population due to a relatively low birth rate at the end of the 1980s through the early 1990s. In 2008, Rosstat estimated Russia's population at 142 million, a decline of almost seven million from 1992. Although the birth rate recently reached its highest rate in 15 years, the population continues to decline due to a relatively low birth rate, an aging population and low life expectancy. According to different estimates Russia's working age population will decline by 18-19 million people by 2025. If the present trend continues without a migration inflow to Russia, the decreasing working population will become a barrier to economic growth around 2015, according to the Economic Forecasting Institute of the Russian Academy of Sciences.

A shortage of skilled Russian workers combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

Legal risks and uncertainties

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

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

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

An existing provision of 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. However, the MNR (including its successor agency since May 13, 2008, the Ministry of Natural Resources and Ecology) has not issued any interpretive guidance on the meaning of these terms. Similarly, under Russia's civil law system, court decisions on the meaning of these terms do not have any precedential value for future cases and, in any event, court decisions in this regard have been inconsistent. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used to challenge our subsoil rights selectively and arbitrarily.

Moreover, during the tumultuous period of the transformation of the Russian planned economy into a free market economy in the 1990s, documentation relating to subsoil licenses was not properly maintained in accordance with administrative requirements and, in many cases, was lost or destroyed. Thus, in many cases,

although it may be clearly evident that a particular enterprise has mined a licensed subsoil area for decades, the historical documentation relating to their subsoil licenses may not be complete. If, through governmental or other challenges, our licenses are suspended or terminated we would be unable to realize our reserves, which could materially adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal noncompliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity

or noncompliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, under Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as of the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their balance sheets prepared in accordance with Russian accounting standards; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Currently, we have two subsidiaries with negative net assets: Kaslinsky Architectural Art Casting Plant 000 and Tikhvin Ferroalloy Plant.

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

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

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

In mid-2008, Mechel came under public criticism by the Russian government. Repeated statements were made accusing Mechel of using tax avoidance schemes and other improprieties. Ultimately the allegations regarding tax avoidance were not confirmed by the tax authorities, but the antimonopoly investigation resulted in imposition of a fine and a number of FAS directives regarding our business practices. See "– Risks Relating to Our Business and Industry – Regulation by the Federal Antimonopoly Service could lead to sanctions with respect to the subsidiaries we have acquired or established, our prices, our sales volumes or our business practices" and "Item 8. Financial Information – Litigation – Antimonopoly."

Selective government action, if directed at us or our major shareholders, could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares 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 action, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Item 10. Additional Information – 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, recent amendments to the Russian Code of Administrative Offenses impose 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 been poor.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to our charter, reorganization, significant sales of assets and other major transactions, which could be prejudicial to the interests of minority shareholders. See

“– Risks Relating to Our Business and Industry – Our controlling shareholder has the ability to take actions that may conflict with the interests of the holders of our shares and ADSs.”

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

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

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

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

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

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

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

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders, by licensed registrars located

throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depositary, under the terms of the agreements governing the deposit and record of our ADSs, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Item 10. Additional Information – Description of Capital Stock – Registration and transfer of shares."

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

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

- profits tax;
- value-added tax ("VAT");
- unified social tax;
- mineral extraction tax; and
- property and land taxes.

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

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

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 0% (if as of the date of deciding to pay dividends, the company receiving dividends for a period of not less than 365 days has continuously possessed not less than 50% of the charter capital of the company paying dividends (or depositary

receipts of the company giving the right to obtain not less than 50% of its dividends), if the cost of acquisition of shares or depositary receipts of the company paying dividends exceeded RUR 500 million) or 9%, if being distributed by Russian companies to Russian companies and/or individual Russian residents, and 15%, if being distributed by foreign companies to Russian companies and natural persons (tax residents of the Russian Federation) or by Russian companies to foreign companies and natural persons who are not Russian tax residents. Dividends from foreign companies to Russian companies are subject to a tax of 9%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the 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 international tax agreement.

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

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

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. As of the end of 2007, as a result of various tax audits of our companies we received assessments from the tax authorities for transfer-pricing related taxes, interest and penalties totaling \$20.2 million relating to the years 2004-2005. In 2008, various tax audits of our companies did not result in claims from the tax authorities for use of transfer pricing; however, under Russian law review of past tax periods relating to the years 2006-2008 by tax authorities is lawful and in this connection claims from the tax authorities are not excluded. We have so far successfully challenged these assessments in court; however, the court decisions that have been issued are subject to appeal by the tax authorities with the Supreme Arbitration Court of the Russian Federation. If similar such assessments are upheld in the future, our financial condition and results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties. See also “– Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs” and “Item 8. Financial Information – Litigation – Tax.”

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

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

In the past, Russian currency regulations imposed various restrictions on operations involving conversion of foreign currencies in an attempt to support the ruble. Effective from January 1, 2007, most of these restrictions have been removed. In 2007, Russian law changed to allow Russian residents to open accounts and effect operations through foreign bank accounts. However, in case of a crisis, the government and the CBR may impose requirements

on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia in the future. For example, Russian companies currently must repatriate proceeds from export sales, subject to certain exceptions. Moreover, the foreign currency market in Russia is still developing and we may experience difficulty in converting rubles into other currencies. Any delay or difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults, or prevent us from carrying on necessary business transactions.

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

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

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

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

Since our subsidiary Southern Urals Nickel Plant carries out exploration and production on land with nickel and cobalt ore deposits included in the official list of subsoil plots of federal importance published on March 5, 2009 in the Russian official gazette Rossiyskaya Gazeta (the "Strategic Subsoil List"), it qualifies as a company with strategic importance for the national defense and security of the Russian Federation (a "Strategic Company") subject to special regulation. Our subsidiary Southern Urals Nickel Plant is also a Strategic Company, as the Buruktal (Orenburg region) and the Sakhara (Chelyabinsk region) nickel and cobalt ore deposits, for which Southern Urals Nickel Plant holds the subsoil licenses, are also included in the Strategic Subsoil List. Our subsidiaries Port Posiet, Port Kambarka OAO ("Port Kambarka") and Port Mechel Temryuk ("Port Temryuk") are included in the register of natural monopolies, and therefore are also Strategic Companies.

According to the Strategic Industries Law, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in production of weapons and military equipment is also deemed to be strategic activity. Our subsidiary Ural Stampings Plant has been found by FAS to hold a dominant position on the market of carbonic, alloyed and heat-resistant alloyed stampings. Such products are of a type generally used in the production of weapons and military equipment. Therefore, Ural Stampings Plant may also qualify as Strategic Company. Furthermore, entities producing and distributing industrial explosives and entities that operate equipment containing radioactive materials are also deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol and Vzryvprom also qualify as Strategic Companies, as they both hold licenses to produce industrial explosives and Yakutugol, in addition, holds a license to operate equipment containing radioactive materials.

Therefore, any sale to a foreign investor or group of entities of a stake in Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom and, possibly, Urals Stampings Plant, which sale, according to the Strategic Industries Law, is deemed to convey control, as described in "Item 4. Information on the Company – Regulatory Matters – Russian Regulation – The Strategic Industries Law," will be subject to prior approval from state authorities. Likewise, a sale to a foreign investor or group of entities of a stake in Mechel which

according to the Strategic Industries Law provides control over Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom and, potentially, Urals Stampings Plant, will also be subject to prior approval from state authorities.

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

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

Other Countries Where We Operate

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

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

The BCG companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters, which impose significant costs on us. U.S. regulatory agencies have the authority to temporarily or permanently close the BCG companies’ mines or modify their operations, which could materially adversely affect our business. Our operations may impact the environment or cause or contribute to contamination or exposure to hazardous substances, which could result in material liabilities to us.

Like other mining businesses in the United States, our BCG companies are subject to a wide range of rules and regulations, including those governing water discharges, air emissions, the management, treatment, storage, disposal and transportation of hazardous materials and waste, protection of plants, wildlife and other natural resources, worker health and safety, reclamation and restoration of properties after mining activities cease, surface subsidence from underground mining, blasting operations, noise, the effects of mining on surface water and groundwater quality and availability, and reporting and recordkeeping. Violations of these requirements can result in fines, penalties, required facility upgrades or operational changes, suspension or revocation of permits and, in severe cases, temporary or permanent facility shut-down. We incur substantial costs to comply with U.S. governmental regulations that apply to our operations in the United States.

We could become subject to investigation or cleanup obligations, or related third-party personal injury or property damage claims, in connection with on-site or off-site contamination issues or other noncompliance with U.S. regulatory requirements. In particular, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, commonly known as Superfund) and analogous state laws, current and former property owners and operators, as well as hazardous waste generators, arrangers and transporters, can be held liable for investigation and cleanup costs at properties where there has been a “release” or “threatened release”

of hazardous substances. Such laws can also require so-called “potentially responsible parties” to fund the restoration of damaged natural resources or agree to restrictions on future uses of impacted properties.

Liability under such laws can be strict, joint, several and retroactive. Accordingly, we could theoretically incur liability (whether as a result of government enforcement or private personal injury or property damage claims) for known or unknown liabilities at (or caused by migrations from or hazardous waste shipped from) any of our current or former facilities or properties, including those owned or operated by our predecessors or third parties.

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

New legislation, regulations and rules adopted or implemented in the future (or changes in interpretations of existing laws and regulations) may materially adversely affect our operations. Some U.S. commentators expect that the current U.S. administration could implement policies or sponsor legislation that will make the production and/or consumption of coal in the United States more expensive and create additional regulatory burdens, and it remains unclear whether this will affect the business and prospects of the BCG companies. In particular, future regulation of greenhouse gases in the United States could occur pursuant to future treaty obligations, statutory or regulatory changes under the U.S. Clean Air Act, federal or state adoption of a greenhouse gas regulatory scheme, or otherwise. The U.S. Congress has recently considered, and there are pending, various proposals to reduce greenhouse gas emissions, and the U.S. Environmental Protection Agency (the “EPA”) recently issued several proposed determinations and rulemakings relating to greenhouse gas emissions from various sources. In the absence of federal legislation, many states and regions have undertaken greenhouse gas initiatives.

These and other potential U.S. federal, state and regional climate change rules will likely require additional controls on coal-fueled power plants, industrial boilers and manufacturing operations, and may even cause some users of coal to switch from coal to a lower carbon fuel. There can be no assurance at this time that a carbon dioxide cap-and-trade program, a carbon tax or other regulatory regime, if implemented, will not affect the future market for coal in the regions where we operate and reduce the demand for coal.

Furthermore, surface and underground mining are subject to increasing regulation, including pursuant to the federal MINER Act, blast survey and monitoring restrictions, and requirements by the U.S. Army Corps of Engineers and U.S. Department of Interior’s Office of Surface Mining, which may require us to incur additional costs.

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

Numerous governmental permits and approvals are required for our U.S. operations. Many of our permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than existing permits. In addition, violations of our permits may occur from time to time, permits we need may not be issued or, if issued, may not be issued in a timely fashion.

In recent years, the permitting required under the U.S. Clean Water Act to address filling streams and valleys in connection with mining operations has been the subject of extensive litigation, including in West Virginia, where our BCG companies’ operations are based. It is unclear at this time how these issues will ultimately be resolved, but for this as well as other issues that may arise involving necessary permits, such requirements could prove costly and time consuming, and could delay, interrupt or discontinue our operations.

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

The U.S. Surface Mining Control and Reclamation Act (“SMCRA”) and counterpart state rules establish operational, reclamation and closure standards for all aspects of surface mining in the United States, as well as many aspects of underground mining. Our estimated reclamation and mine closure obligations could change significantly