

debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects,” “Item 3. Key Information – Risk Factors – Risks Relating to Our Financial Condition and Financial Reporting – We have a substantial amount of outstanding indebtedness with restrictive financial covenants,” “Item 3. Key Information – Risk Factors – Risks Relating to Our Business and Industry – We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our business, financial condition, results of operations and prospects” and “Item 3. Key Information – Risk Factors – Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.”

Disposal of Bluestone

In February 2015, we disposed of 100% of shares in Mechel Bluestone Inc., the holding company of our coal assets in the United States, to a company owned by the Justice family. The disposal of Bluestone occurred in challenging conditions of extremely weak global demand for coal and coal mining assets. As a result of such weak demand, mining at Bluestone’s open pit and underground mines was not profitable. Bluestone has been unprofitable since 2012.

The total consideration consists of: (1) an immediate cash payment of \$5 million; (2) future royalty payments on coal mined and sold in the amount of \$3.00 per short ton, capped at \$150 million; (3) a portion of a sale price in case of any future sale of Bluestone and/or its assets, amounting to 12.5% or 10% of the total consideration if the sale transaction closes within five or 10 years, respectively, of the sale to the Justice family; (4) removal of approximately \$140 million of liabilities from the group’s consolidated balance sheet; and (5) dismissal of several litigation proceedings which enabled us to avoid over \$160 million worth of legal risks.

We concluded that the disposal of Bluestone companies met the criteria for discontinued operations and excluded the results of operations of Bluestone companies from continuing operations and reported them as discontinued operations for the period ended December 31, 2014 and prior periods. See note 4(c) to the consolidated financial statements.

Risk Factors

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

Risks Relating to Our Financial Condition and Financial Reporting

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

As discussed in note 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 negotiations with the banks, there is substantial doubt about our ability to continue as a going concern. We also note that we have been in non-compliance with financial and non-financial covenants in our major loan agreements. In addition, there was a default on payments of principal and interest to certain lenders and lessors. See “– We face pressure on our liquidity, negatively influencing our working capital, which resulted from the lasting global economic slowdown and our need to service debt along with international sanctions against Russia and Russian state-owned banks,” “Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding

debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects," "We have a substantial amount of outstanding indebtedness with restrictive financial covenants" and "We have not fulfilled our payment obligations as well as certain other terms and conditions under several of the group's lease agreements and one of the respective lessors has required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects." As of December 31, 2014, one of our lenders requested accelerated repayment of amounts due under the respective loan agreements. The other lenders have not requested accelerated repayment of amounts due, but have the legal right to do so. In February 2015, one of our lessors requested accelerated repayment of amounts due under the respective lease agreements. Our restructuring plan includes asking our creditors to refinance and amend the terms and conditions of our existing debt agreements to extend grace periods and repayment periods beyond December 31, 2015 and align the servicing of our debt with the projected cash flows to be generated by the group in 2015 and beyond, are discussed in "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Outlook for 2015" and 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 us not being able to refinance our debt obligations.

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

As a result of the economic downturn and a sharp decline in demand and prices for our products starting from August 2008 and continuing into the first half of 2009, as well as due to a substantial increase in our total indebtedness in 2007 and early 2008 which was incurred mostly for the acquisition of Yakutugol in 2007 and Oriel Resources in 2008, we experienced a liquidity shortage in late 2008 and early 2009. Since we had significant debt that we did not have the ability to repay without refinancing or restructuring, and our ability to do so was dependent upon cooperation from our lenders, there was substantial doubt as to our ability to continue as a going concern as of December 31, 2008. From late 2008 through 2009, we obtained significant loans from Russian state-owned banks, restructured and refinanced our credit facilities used to finance the acquisitions of Oriel Resources and Yakutugol and issued Russian ruble bonds. Our indebtedness increased during 2010 and 2011 due to financing of the substantial investment program of our subsidiaries (including the construction of the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant, the construction of the Elga rail line and development of the Elga coal deposit) and financing of the increased level of inventories, primarily, due to expansion of Mechel Service Global's business.

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

In the first half of 2014, as a result of the economic slowdown both in the export and domestic markets and a sharp decline in demand and prices for our products, we experienced a shortage of liquidity and difficulties with refinancing of our debt; as a result, we failed to fulfill our payment obligations in connection with the servicing of the interest and the repayment of our debts. We held discussions with our creditors and applied for a

standstill with respect to the payment of our financial obligations. From the second half of 2014, the markets for our main products began to recover, and the depreciation of the ruble contributed to an increase in our operating profit. We resumed making regular payments of current interest to the banks and are currently negotiating new repayment schedules as well as the restructuring of overdue interest and principal. Our primary objective in negotiating the debt refinancing and restructuring and resetting the financial covenants is to ensure a stable financial environment that would allow us to continue to pursue our financial strategy: lengthening the maturity profile of our debt portfolio and grace repayment periods across our most important credit facilities, which would help us endure the prolonged commodity price depression.

For the year ended December 31, 2014, we had an operating income of \$126.4 million as compared to an operating loss of \$656.8 million for the year ended December 31, 2013. Net cash provided by operating activities was \$744.6 million for the year ended December 31, 2014 as compared to \$326.6 million for the year ended December 31, 2013. As of December 31, 2014, our total indebtedness was \$6,845.1 million, a decrease of \$2,146.4 million from December 31, 2013. The short-term portion of our total indebtedness was \$6,678.5 million as of December 31, 2014 as compared to \$1,478.2 million as of December 31, 2013. The working capital deficit amounted to \$7,291.3 million as of December 31, 2014 as compared to \$768.8 million as of December 31, 2013. Cash and cash equivalents as of December 31, 2014 were \$72.4 million as compared to \$274.5 million as of December 31, 2013. Our total liabilities exceeded total assets by \$2,644.7 million as of December 31, 2014.

As of December 31, 2014, we were in breach of certain financial and non-financial covenants in various loan agreements and defaulted on our loans. See “– Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects,” “We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments,” “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Restrictive Covenants,” “Item 5. Operating and Financial Review and Prospects – Description of Certain Indebtedness” and “Item 13. Defaults, Dividend Arrearages and Delinquencies.”

In the absence of a significant and sustainable increase in the price levels and demand for our products, our plans for 2015 and beyond are conservatively based on continuing our restructuring and refinancing efforts of our loans with our creditors, improvement of the efficiency of our operations, decreasing production and delivery expenses, running down loss-making or non-core operations and selectively disposing of certain assets. However, no assurances can be made in relation to the above, and our operations and profitability depend on market prices and demand for our products which may continue to deteriorate due to general market conditions or other factors including international sanctions against Russia and Russian individuals or businesses. 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 business, financial condition, results of operations and prospects” and “– Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.”

Our ability to refinance existing debt is limited due to difficult conditions on the financial markets and in the banking sector, together with sanctions on certain Russian banks preventing them from raising additional funds on the international markets. We have refinanced part of our debt portfolio with longer term debt, reduced the capital investment program and disposed of certain non-core or loss-making assets. See “– We have a substantial amount of outstanding indebtedness with restrictive financial covenants” and “– We will require a significant amount of cash to fund our capital investment program.” These measures, if successful, should reduce the risk of facing a liquidity shortage in the medium term as well as allow us to reduce our indebtedness over time.

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

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodity prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors (including the imposition of further international sanctions against Russian companies or individuals), many of which are beyond our control, may adversely and materially affect our cash flow, liquidity and working capital position and may result in an increase in our working capital deficit and in our inability to meet our obligations as they fall due. If such a situation were to occur, we may be required to further refinance our existing debt and/or to seek additional capital. There is no guarantee that we would be successful in refinancing our debt or in raising additional capital (particularly if we fall under international sanctions preventing us from accessing foreign capital markets), or that we would be able to do so on a timely basis or on terms which are acceptable to us. Even if we were successful, the terms of such refinancing or new capital may be detrimental to holders of ADSs and shares including due to a dilution of their interest. Any such deterioration, affect or failure could have a material adverse effect on our business, financial condition, results of operations and the trading price of our ADSs and shares.

If the significant economic slowdown and international sanctions were to continue, we could face a renewed liquidity shortage and again breach our restrictive covenants, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our failure to comply with the restrictive covenants in our credit facilities has caused one of our creditors to accelerate amounts due under its loan agreements and such failure, or like failure in the future, may cause the acceleration of our other outstanding debt, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

In recent years, we have been in breach of covenants in various loan agreements, but we received waivers, consents and covenant amendments from the relevant lenders for such breaches. As of December 31, 2014, we were not in compliance with the restrictive covenants in most of our credit facilities (including but not limited to financial ratios, such as the Net Borrowings to EBITDA ratio and the EBITDA to Net Interest Expense ratio) and failed to obtain waivers, consents and covenant amendments from the relevant lenders for such breaches, nor have we been able to refinance or alter such loan agreements. Further, following a request to our creditors for a standstill with respect to the payment of our financial obligations or a temporary reduction in servicing the loans which was not accepted, we missed the scheduled payments of interest and principal under most of our loan agreements, which as discussed below has led to cross-defaults under other agreements. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Restrictive Covenants," "Item 5. Operating and Financial Review and Prospects – Description of Certain Indebtedness" and "Item 13. Defaults, Dividend Arrearages and Delinquencies."

Almost all of our credit facilities contain cross-default provisions which were triggered by our default under our other loan and credit facilities. A cross-default provision contemplates that a default on one loan with the principal amount above certain threshold would result in a default on other loans. None of our major lenders such as Russian state-controlled banks or international lenders has so far waived their rights in respect of or granted their consent to such breaches. The refusal of any one lender to grant or extend a waiver or amend the loan documentation, even if other lenders may have waived covenant defaults under the respective credit facilities, could result in substantially all of our indebtedness being accelerated. If our indebtedness is accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing, and we could lose our assets, including fixed assets and shares in our subsidiaries, if our lenders foreclose on their liens (which some have threatened to do), which would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares and ADSs.

Currently we continue to be in default under most of our credit facilities, and are negotiating with our lenders.

On October 29, 2014, due to our payment defaults and violation of cross-default provisions in our credit facilities with VTB Bank, VTB Bank notified us of its decision to accelerate the total outstanding amounts of principal and interest under such loan agreements, as well as impose penalties, in a total amount of 65.7 billion rubles. Such acceleration, in turn, gave our other creditors the right to trigger acceleration under their loan agreements. See "Item 8. Financial Information – Litigation – Debt litigation" and "– We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments."

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

We have a substantial amount of outstanding indebtedness with restrictive financial covenants.

We have a substantial amount of outstanding indebtedness, primarily consisting of debt we incurred in connection with the financing of our acquisitions of Yakutugol and Oriel Resources in 2007 and 2008, as well as debt we incurred to finance our investment program in recent years including the development of the Elga coal deposit and the universal rolling mill installation, and our working capital needs which have been significant in recent years due to the depressed demand and pricing for our main products. Most of this debt has restrictive financial covenants. See "Item 5. Operating and Financial Review and Prospects – Restrictive Covenants" and "Item 5. Operating and Financial Review and Prospects – Description of Certain Indebtedness." As of December 31, 2014, our consolidated total debt, including capital lease obligations, was \$7,118.9 million, of

[Table of Contents](#)

which \$6,949.5 million was short-term debt (including \$6,378.4 million with loan covenant violations, of which \$4,297.5 million was long-term debt reclassified to short-term debt due to defaults and cross-defaults under our loan agreements). Our interest expense for the year ended December 31, 2014 was \$793.2 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 50%+2 shares of Yakutugol, 50%+2 shares of Southern Kuzbass Coal Company, 20% of Chelyabinsk Metallurgical Plant, 25%+1 share of total shares of Beloretsk Metallurgical Plant, 55%+1 share of Korshunov Mining Plant, 62.5%+2 shares of Mechel Mining, 30%+1 share of Urals Stampings Plant, 25%+1 share of total shares of Izhstal, 49% of Elgaugol, 25% of registered capital of Mecheltrans and 100% of registered capital of Fincom-invest 000 as of December 31, 2014. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders. As of December 31, 2014, the carrying value of property, plant and equipment, inventory, accounts receivable and investments (bonds of third parties) pledged under our loan agreements amounted to \$569.1 million. See note 14(i) to the consolidated financial statements.

Our ability to make payments on our indebtedness depends upon our operating performance, which is subject to general economic and market conditions, commodity prices, and financial, business and other factors (including the maintenance or extension of international sanctions against Russian companies and individuals), many of which we cannot control. If we do not generate sufficient cash flow from operations in order to meet our debt service obligations, we may have to undertake alternative financing plans to alleviate liquidity constraints, such as refinancing or restructuring our debt, reducing or delaying our capital expenditures or seeking additional capital.

The majority of our borrowings are from Russian banks, including state-controlled banks such as Gazprombank, Sberbank and VTB Bank, as well as from Russian ruble bonds which are mostly held by Russian institutions. It is possible that these sources of financing may not be available in the future in the amounts we may require or may be expensive and/or contain overly onerous terms, particularly in light of the international sanctions that have been imposed on Russian state banks. More recently, the economic slowdown in Russia as well as the events in Ukraine and Crimea has introduced additional uncertainty in the overall outlook for the ability of Russian banks to provide sufficient liquidity to Russian companies. In the current environment, if Russian banks and financial institutions are no longer able to continue to refinance our indebtedness or finance our working capital needs, we may not be able to diversify our funding sources and may default on our debt which would have a material adverse effect on our business, financial condition, results of operations and prospects. See “– Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs” and “– Risks Relating to the Russian Federation – Economic risks – The Russian banking system is still developing, and another banking crisis or international sanctions could place severe liquidity constraints on our business.”

Subject to market conditions, an improvement in our corporate ratings and the status of international sanctions against Russian companies and individuals, we may access the international debt capital markets in order to diversify funding sources, further extend the maturity profile of our debt portfolio and reduce refinancing risk. We cannot provide assurance that any refinancing or additional financing would be available on acceptable terms. This is reinforced by the existing uncertainty in the Russian and global economies, including concerns about sovereign debt in Europe and the United States. Any inability to satisfy our debt service obligations or to refinance debt on commercially reasonable terms could materially adversely affect our business, financial condition, results of operations and prospects.

Among other things, high levels of indebtedness, the restrictive financial covenants in our credit facilities and breaches thereof as well as default on our loans, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility to plan for, or react to, changes in the markets in which we

[Table of Contents](#)

compete; (3) disadvantage our group relative to our competitors with superior financial resources; (4) lead to a loss of assets pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions; (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends.

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

Our future is dependent on our ability to refinance or restructure our indebtedness successfully. If we fail to do so for any reason, we might not be able to continue as a going concern and could be forced to seek relief under applicable bankruptcy procedures, in which case our shares and ADSs may lose all or substantial amount of their value. See “— There is substantial doubt about our ability to continue as a going concern.”

Our creditors, including the Federal Tax Service of the Russian Federation, may file a bankruptcy petition with a court seeking to declare us insolvent if we are unable to make payments to our creditors in excess of 300,000 rubles within three months of such payments becoming due. In most cases, for such petition to be accepted, the outstanding indebtedness must be confirmed by a separate court decision or arbitral award that has already entered into force. However, under recent amendments to the Federal Law No. 127-FZ “On Insolvency (Bankruptcy)” dated October 26, 2002 (the “**Bankruptcy Law**”), financial (credit) organizations, which include our major creditors, may file a petition for bankruptcy without such separate court decision. In this case, the financial organization is required to notify the debtor and its creditors in writing at least 30 days prior to filing a petition for bankruptcy. Starting from July 1, 2015, the notification period shall be reduced to 15 days. On March 7, 2015, VTB Bank published a notification of its intention to initiate bankruptcy proceedings against us and is now entitled to file a bankruptcy petition with the court. On March 12, 2015, VTB Bank further informed our main creditors of its intention to proceed with such bankruptcy petition. On April 24, 2015, VTB Bank and VTB Capital Plc filed a claim with the High Court of Justice Queen’s Bench Division Commercial Court in England seeking for injunctive relief under pre-export facility agreements with a syndicate of banks. See “Item 8. Financial Information – Litigation – Debt litigation.” We are currently in negotiations with VTB Bank and Gazprombank and have reached preliminary agreements contemplating, among other things, extension of the loan tenors, decrease in the interest rates, revision of the collateral requirements, and dismissal of all court proceedings upon the signing of the binding documentation. As of the date hereof, we have no information as to whether VTB Bank has exercised its right to file the bankruptcy petition pursuant to its notification. If VTB Bank or any other creditor initiates court proceedings seeking to declare us insolvent or if VTB Bank is granted with aforementioned preliminary injunctions, it could have a material adverse effect on our prospects and on the value of our shares and ADSs and may ultimately result in the inability of holders of our shares and ADSs to recover any of their investments.

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

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

substantial part of their investment. This risk is even more significant for ADS holders whose status in the bankruptcy proceedings is unclear.

We have not fulfilled our payment obligations as well as certain other terms and conditions under several of the group's lease agreements and one of the respective lessors has required the return of the leased assets, which may materially adversely affect our business, financial condition, results of operations and prospects.

Some of our group companies have entered into various lease agreements with different leasing companies for the lease of excavators, bulldozers, dump trucks (BelAZ), open cars, locomotives, lift trucks, cranes, drilling rig systems, crushing stations and other equipment.

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

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

In particular, we failed to fulfill our payment (as well as certain other) obligations under the lease agreements with Sberbank Leasing ZAO. Between May and August 2014, we received payment demands from Sberbank Leasing ZAO, requiring us to settle the overdue amounts under the respective lease agreements. In September-October 2014, Sberbank Leasing ZAO filed lawsuits for the recovery of the overdue amounts under the lease agreements concluded with Korshunov Mining Plant, Mechel Materials, Yakutugol, Southern Kuzbass Coal Company and Metallurgshakhtspetsstroy. We filed counterclaims which were denied by the courts. In February 2015, Sberbank Leasing ZAO sent termination notices to the lessees under the respective lease agreements for the total amount of 4.2 billion rubles. According to such notices, unless the payments are made within 15 days from the date of the notice, the respective lease agreements shall be deemed terminated. The payments were not made, and in April 2015, Sberbank Leasing ZAO requested through the courts accelerated repayment of amounts due under the lease agreements as well as the return of the leased assets. See "Item 8. Financial Information – Litigation – Debt litigation." We are continuing to use the leased assets in our operations and are negotiating a settlement with Sberbank Leasing ZAO in an effort to agree new payment schedules under the lease agreements.

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

In 2014, we also failed to fulfill certain obligations under several of our lease agreements with VTB Leasing OJSC. However, in September 2014, we successfully restructured payment schedules under these agreements for a total surrender value of 10.3 billion rubles.

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

Our business requires maintenance capital expenditures in order to maintain production levels adequate to meet the demand for our products, as well as other capital expenditures to implement our business strategy. We spent \$223.6 million during 2014 on our capital expenditures (including \$40.2 million in maintenance capital expenditures). In planning for 2015, we followed our current investment policy focusing only on those items that are either close to completion or are of major importance for our operations. Our capital investment program currently contemplates capital spending of up to \$359.8 million in 2015 (including up to \$41.6 million in

maintenance capital expenditures). The majority of these planned capital expenditures relate to the development of the Elga coal deposit and which are required to be made pursuant to the terms of the subsoil license. The Elga capital expenditures are financed from the project financing provided by State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" ("Vnesheconombank") in April 2014. As of December 31, 2014, the total amount of financing received under this project financing amounted to \$170.8 million. Further financing of the project is subject to the fulfillment of conditions precedent stipulated in the project finance agreements. We intend to fulfill these conditions in the second quarter of 2015. We plan to spend up to \$2.2 billion for the three-year period of 2015-2017 on capital investments (including up to \$0.2 billion in maintenance capital expenditures). See "Item 4. Information on the Company – Capital Investment Program."

Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt and equity financing. This, to a certain extent, is subject to general economic and market conditions, financial, competitive, legislative, regulatory and other factors (including the status of international sanctions against Russian companies and individuals) that are beyond our control. Raising debt financing for our capital expenditures on commercially reasonable terms may be particularly challenging given our current high levels of indebtedness, restrictive covenants and pledges of shares and assets of our subsidiaries to our current lenders. Any deterioration in our operating performance, including due to any worsening of economic conditions, fall in commodity prices and/or financial, business or other factors, many of which are beyond our control, may adversely and materially affect our cash flow which may leave us unable to conduct our capital expenditure plans as necessary or required, which could adversely affect our operating facilities and ability to comply with applicable regulations.

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

A substantial part of our sales are denominated in U.S. dollars, whereas the majority of our direct costs are incurred in rubles. Depreciation in real terms of the ruble against the U.S. dollar may result in a decrease in our costs relative to our revenues. Conversely, appreciation in real terms of the ruble against the U.S. dollar may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase sufficiently to compensate for the increase in real terms in our ruble-denominated expenditures. The mix of our revenues and costs is such that a depreciation in real terms of the ruble against the U.S. dollar tends to result in a decrease in our costs relative to our revenues, while an appreciation of the ruble against the U.S. dollar in real terms tends to result in an increase in our costs relative to our revenues. In 2013, the ruble appreciated in real terms against the U.S. dollar by 2.7% as compared with 2012, according to the CBR. In 2014, the ruble depreciated significantly against the U.S. dollar and other currencies, plummeting to 67.79 rubles to one U.S. dollar on December 18, 2014. In 2014, the ruble depreciated in real terms against the U.S. dollar by 11.1% as compared with 2013, according to the CBR. As of March 31, 2015, the ruble-U.S. dollar exchange rate was 58.4643 (a 63.83% growth compared to March 31, 2014) and the ruble-euro exchange rate was 63.3695 (a 29.19% growth compared to March 31, 2014).

In an effort to protect the country's foreign currency reserves from substantial depletion, the CBR moved to a free floating exchange rate regime on November 20, 2014. In response to continuing ruble depreciation, the CBR in an unexpected, emergency meeting increased its key rate, which determines the borrowing costs for commercial banks, from 10.5% to 17% (subsequently lowering the rate to 15% on January 30, 2015 and to 14% on March 13, 2015). The increase in the CBR key rate resulted in more than a threefold increase in the MosPrime rate (as of December 31, 2014). Two of our facility agreements, namely the Mechel and Southern Kuzbass Coal Company facility agreements entered into with VTB Bank, bear floating interest rates tied to the MosPrime rate. See "Item 10. Additional Information – Material Contracts – Credit Facility for Mechel from VTB Bank" and "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Debt Financings in 2014." Although we are negotiating with VTB Bank in an effort to lower the interest rate to offset the rise in the MosPrime rate, as a result of the increase in the MosPrime rate, our interest expenses payable under our ruble-denominated floating-rate debt increased from \$34.2 million payable in the fourth quarter of 2014 to

\$60.5 million that would be payable in the first quarter of 2015, if we fail to agree to lower the interest rate. In addition, due to the volatile macroeconomic situation, U.S. and E.U. sanctions imposed against Russian state banks, the increase in the CBR key rate and the lack of liquidity on the financial markets, there is a significant risk that the interest rates under our main facility agreements with Russian lenders, including but not limited to VTB Bank Facility Agreements, Sberbank Facility Agreements, Gazprombank Facility Agreements, and with foreign lenders, such as the Pre-Export Facility Agreements entered into by Yakutugol and Southern Kuzbass Coal Company, will be unilaterally increased. Should the CBR key rate remain at current levels or be further increased, or should interest rates under our existing facility agreements otherwise increase, we will face higher borrowing costs, which could have a material adverse effect on our business, cash flows, financial condition, results of operations, prospects or our ability to comply with financial covenants under our facility agreements.

Inflation could increase our costs and decrease operating margins.

In 2014, 2013 and 2012, the inflation rate in Russia was 11.4%, 6.5% and 6.6%, respectively, according to the Russian Federal State Statistics Service ("Rosstat"). The Ministry of Economic Development of the Russian Federation predicts inflation will rise sharply in 2015 and perhaps in subsequent years as a result of international sanctions imposed on Russian companies and individuals, the significant fall in the ruble against the U.S. dollar and euro and other factors. Inflation increases our operating costs on monetary items, which are sensitive to rises in the general price level in Russia, including fuel and energy costs, cost of production services and salaries. Inflation could also potentially increase the prices we can charge for our products. The impact of inflation on our operating margins depends on whether we can charge higher prices corresponding with the increase in costs. Nevertheless, there is a high risk that inflation will have an overall negative impact on our operating margins.

Limitations on the conversion of rubles into foreign currencies in Russia could cause us to default on our obligations.

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

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

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

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

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

A non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have an adverse effect on our business, results of operations and financial condition.

From late 2009 to the end of 2013, we worked closely with certain Russian and foreign metallurgical plants and trading companies, which are disclosed as related parties in our U.S. GAAP financial statements (the "**related metallurgical plants**"). See "Item 7. Major Shareholders and Related Party Transactions – Related Party Transactions – Transactions with related metallurgical plants," "– Transactions with Metallurg-Trust" and note 10 to the consolidated financial statements. We supplied raw materials to them and purchased their products pursuant to short-term supply and purchase contracts. By the end of 2013 and in 2014, the volume of transactions with the related metallurgical plants and Metallurg-Trust declined significantly due to the temporary suspension of operations of certain of the metallurgical plants and the initiation of bankruptcy proceedings against these companies. Revenues from sales to these companies amounted to \$105.7 million, \$230.0 million and \$730.0 million in the years ended December 31, 2014, 2013 and 2012, respectively. Purchases from these companies amounted to \$114.4 million, \$613.4 million and \$874.6 million in the years ended December 31, 2014, 2013 and 2012, respectively. Revenues from re-sales of products purchased from these companies to third parties amounted to \$83.1 million, \$570.5 million and \$847.7 million in the years ended December 31, 2014, 2013 and 2012, respectively. Substantially all of the revenues from sales to, and revenues from re-sales of products purchased from, these companies were in the steel segment. In the years ended December 31, 2014, 2013 and 2012, these revenues represented 5.2%, 15.6% and 23.0%, respectively, of our group's total steel segment revenues. As of December 31, 2014, trade accounts receivable and other accounts receivable from these companies totaled \$596.1 million, with credit terms varying from two days to five years. In addition, as of December 31, 2014, prepayments to these companies totaled \$29.2 million. We closely monitor our balances with these companies, including our trade accounts payable to them. As of December 31, 2013 and 2014, we recorded allowances in the total amount of \$734.9 million and \$618.5 million, respectively, against the accounts

receivable and prepayments from these companies. The allowance for doubtful accounts was recognized based on our estimates of future cash inflows from these balances.

In November 2011, the owners of the related metallurgical plants (“**Estar Group**”) entered into an agreement with us pursuant to which \$944.5 million of debt, mostly consisting of accounts receivable owed to us by the Estar Group, was restructured into a loan agreement (the “**Estar Loan Agreement**”). The Estar Loan Agreement was secured by a pledge of shares in the major related metallurgical plants and/or their parent companies, as well as by suretyships from the related metallurgical plants and/or their parent companies. In September 2012, we extended the term of the loan for additional nine months until June 2013, reducing the amount of the loan to \$876 million. During the year ended December 31, 2013, the loan was repaid only in the amount of \$5.0 million. As the repayment was not effected in time we initiated legal proceedings against the borrower and sureties. There were no additional repayments of the loan during the year ended December 31, 2014.

In September 2012, we acquired a 100% stake in Cognor Stahlhandel, a metallurgical trader, and, in November 2012, we acquired a 100% stake in Lomprom Rostov, a scrap collecting and processing company (subsequently renamed to Mechel Vtormet Rostov). Both entities formed part of the pledged assets under the Estar Loan Agreement. Upon the acquisitions, the loan under the Estar Loan Agreement was partially repaid and reduced to \$731 million. See “Item 7. Major Shareholders and Related Party Transactions – Related Party Transactions – Transactions with related metallurgical plants” and “– Transactions with Metallurg-Trust” and note 10 to the consolidated financial statements.

As of December 31, 2014 and December 31, 2013, we evaluated the recoverability of the balances due from the related metallurgical plants and the Estar Group based on the fair value of the pledged assets which we determined to be negligible. This resulted in an \$832.0 million and \$888.0 million provision for amounts due from related parties under the Estar Loan Agreement as of December 31, 2014 and December 31, 2013, respectively. We have not taken possession of other assets (besides Cognor Stahlhandel and Lomprom Rostov) provided as collateral because these entities are burdened with a substantial amount of debt. Nevertheless, given the liquidity issues faced by these companies and the dependency of their businesses on the general condition of the steel sector as well as the reduction in the volume of transactions we entered into with the related metallurgical plants in 2013 and 2014, we may fail to collect accounts receivable from and suffer loss of prepayments to these companies, which could have an adverse effect on our business, results of operations and financial condition.

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

At each reporting date, we review the carrying value of our long-lived assets, including property, plant and equipment, investments, goodwill, licenses to use mineral reserves (inclusive of capitalized costs related to asset retirement obligations and value beyond proven and probable reserves), and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated net undiscounted cash flows expected to be generated by the asset or group of assets. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group of assets, the asset or group of assets is considered impaired, and an impairment charge is recognized equal to the amount required to reduce the carrying amount of the asset or group of assets to their fair value.

Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. Estimated future cash flows are based on our

[Table of Contents](#)

assumptions and are subject to risks and uncertainties that are considered when setting the discount rate in the goodwill impairment testing. For assets and groups of assets relating to and including the licenses to use mineral reserves, future cash flows include estimates of recoverable minerals that will be obtained from proven and probable reserves, mineral prices (considering current and historical prices, price trends and other related factors), production levels, capital and reclamation costs, all based on the life of mine models prepared by our engineers. Our reporting units with goodwill allocated for testing purposes represent single entities with one component of business in each case.

Goodwill is assessed for impairment by using the fair value based method. We determine fair value by utilizing discounted cash flows. Goodwill is tested for impairment in two steps. Under the first step we compare the fair value of the reporting unit with its carrying value. If the fair value is less than the carrying value, goodwill is impaired. Under the second step the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation). If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before testing goodwill. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

When performing impairment tests, we use assumptions that include estimates regarding the discount rates, growth rates and expected changes in selling prices, sales volumes and operating costs, as well as capital expenditures and working capital requirements during the forecasted period. We estimate discount rates using after-tax rates that reflect current market rates for investments of similar risk. The growth rates are based on our growth forecasts, which are largely in line with industry trends. Changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market.

Based on the results of the impairment analysis of long-lived assets, including definite-lived intangibles and goodwill, we performed during the year ended December 31, 2014, no impairment loss of goodwill was recognized. An impairment loss of long-lived assets of \$120.2 million was, however, recognized. See note 24 to the consolidated financial statements.

The amount of goodwill on our balance sheet as of December 31, 2014 that is subject to impairment analysis in the future is \$403.2 million or 6% of our total assets. This amount includes goodwill of Yakutugol, Southern Kuzbass Power Plant, Bratsk Ferroalloy Plant and Port Posiet of \$237.9 million, \$68.0 million, \$52.0 million and \$13.4 million, respectively, the fair values of which were 54%, 307%, 321% and 106% over their carrying values, respectively, as of December 31, 2014. See note 24 to the consolidated financial statements.

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

Given the competition for qualified accounting personnel in Russia, we may be unable to retain our key accounting staff, which could disrupt our ability to timely and accurately report 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.

Risks Relating to Our Business and Industry

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

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

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

Our power segment generates and supplies electricity. Power demand in Russia depends on its consumption by the industrial sector. In Russia, the steel and mining industries are major consumers of power and declines in production by steel and mining companies impact demand for power. Market demand for the power produced by our power segment is affected by many of the same factors and cycles that affect our mining and metals businesses. Due to government price regulation and the current shortage of power generation capacity in Russia, the reduction in 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, particularly following the depreciation in the ruble, beginning in late 2014, and the higher levels of inflation at present.

As a result of the 2008-2009 global economic crisis and the subsequent 2010-2011 global economic slowdown, the demand and prices for our products sharply declined. The continuing stagnation of the economy of the European region, the 2012-2014 economic slowdowns in the Asian region, primarily in China, as well as the existing uncertainty as to global economic recovery in the near future and international sanctions against Russia and Russian individuals or businesses may have adverse consequences for our customers and our business.

as a whole. See “– Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.”

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

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

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

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

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

We base our reserve information on engineering, economic and geological data which is assembled and analyzed by our staff, which includes various engineers and geologists, and which is reviewed by independent mining engineers only periodically, approximately once every three years. The reserve estimates as to both quantity and quality are periodically updated to reflect production from reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities and the costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, such as

geological and mining conditions which may not be fully identified by available exploration data or which may differ from our experience in current operations, projected rates of production in the future, historical production from the area compared with production from other similar producing areas, the assumed effects of regulation and taxes by governmental agencies and assumptions concerning prices, operating costs, mining technology improvements, mineral extraction and excise tax, development costs and reclamation costs, all of which may vary considerably from actual results. In addition, it may take many years from the initial phase of drilling before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of the relevant commodity. Mine development plans may have to be revised due to geological and mining conditions and other factors described above, as well as due to shortages in capital funding. Our planned development projects also may not result in significant additional reserves and we may not have continuing success developing new mines or expanding existing mines beyond our existing reserves.

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

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

The calculation of reserves and the development of the Elga coal deposit are subject to certain risks due to the license obligations and capital costs involved in developing the required infrastructure.

The risks associated with the development of the Elga coal deposit have the potential to impact the project's legal or economic viability, including the calculation of reserves. Key risks that have been identified include the following: (1) the subsoil license for the Elga coal deposit could be suspended or terminated if construction deadlines and operational milestones are not met or we could be required to extend the license under less favorable terms; (2) the project requires significant capital expenditures to develop the required production and washing facilities and infrastructure, and increases in planned capital and operating costs could make the project uneconomical because of the project's sensitivity to these costs; (3) the economic viability of the project is dependent upon the full use of the rail line; (4) the project is very sensitive to market prices for coal because of the high initial capital costs; and (5) the insufficient capacity of ports in the Russian Far East where the Elga deposit is located may limit the distribution of coal mined at the Elga deposit. In addition, capital expenditures for the rail line were not considered in the calculation of reserves estimates as we do not plan to use the rail line solely for delivery of coal from the Elga deposit. While we have already invested approximately \$2.1 billion in the development of the Elga coal deposit, its further development requires an additional approximately \$1.7 billion in 2015-2017. In March 2014, our subsidiary Elgaugol signed two loan agreements with Vnesheconombank for a \$2.5 billion project financing to develop the Elga coal deposit. In case of Elgaugol's failure to comply with the construction deadlines, operational milestones and other terms of the loan agreements, Vnesheconombank may suspend or terminate the financing. The realization of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects. Disbursement under the two loan agreements was in fact suspended by Vnesheconombank due to our failure to fulfill conditions precedent; we intend to fulfill all conditions so as to continue disbursements in 2015.

[Table of Contents](#)

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

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

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

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

In particular, the current annual capacity of the Baikal-Amur Mainline to which our Elga deposit is connected by our private rail line, is in the range of 12 to 15 million tonnes, which will need to be expanded substantially to meet our needs when Elga Open Pit reaches its full planned annual production capacity of 24.0 million tonnes of saleable coal in 2024. Russian Railways plans to double the capacity of the Baikal-Amur Mainline by 2020 as well as increase capacity of the Komsomolsk-on-Amur-to-Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 32.6 million tonnes by 2016. However, this increase may not be sufficient as third party users of rail lines may also substantially increase their cargo volumes on the Baikal-Amur and Trans-Siberian Mainlines and further in the direction from Komsomolsk-on-Amur to Sovetskaya Gavan transportation hub. We cannot guarantee that these development projects by Russian Railways will proceed according to current plans, particularly in light of international sanctions against Russian companies and individuals. In addition, there is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavored to acquire ports or separate terminals to ensure the export of their products.

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

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

Almost all of our Russian assets consist of companies formed during the course of Russian privatizations in the 1990s and early 2000s. In particular, Southern Kuzbass Coal Company and the other mining companies which were subsequently merged into Southern Kuzbass Coal Company, as well as Korshunov Mining Plant and Moscow Coke and Gas Plant, were privatized in the early 1990s. Chelyabinsk Metallurgical Plant was also privatized in the early 1990s. Elgaugol OAO was privatized in 1998 and Yakutugol was privatized in 2002. In

[Table of Contents](#)

general, we acquired shares in these companies from third parties after their respective privatizations, except for a 25%+1 share stake in Yakutugol, which was acquired pursuant to a state auction in 2005. We acquired the remaining stake in Yakutugol and a 68.86% stake in Elgaugol OAO in 2007 from two state-owned companies in a tender process.

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

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

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

Our business depends on the continuing validity of our subsoil licenses and the issuance of new and extended subsoil licenses and our compliance with the terms thereof. In particular, in estimating our reserves, we have assumed that we will be able to renew our Russian subsoil licenses as and when necessary in the ordinary course of business so that we will be able to exploit the resources under such licenses for the operational life of the relevant subsoil plot. See "Item 4. Information on the Company – Regulatory Matters – Subsoil Licensing in Russia – Extension of licenses" and "– Mining Segment – Mineral reserves (coal, iron ore and limestone)." However, license extension is subject to the licensee being in compliance with the terms of the license. Our experience with license extensions and publicly available information about current market practice and available court practice suggest that regulatory authorities tend to focus on such terms of the license as production levels, operational milestones and license payments, which are considered to be material terms of the license. Nevertheless, there is no assurance that this approach will be consistently applied by the regulatory authorities and the courts and that there will be no changes to this approach in the future. Regulatory authorities exercise considerable discretion in the timing of license issuance, extension of licenses and monitoring licensees' compliance with license terms. Subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See "Item 4. Information on the Company – Regulatory Matters – Subsoil Licensing in Russia – Maintenance and termination of licenses." If regulatory authorities determine that we have violated the material terms of our licenses, it could lead to rejection in license extension or suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. Our subsoil licenses expire on dates falling in 2020 through 2037. See the tables setting forth expiry dates of our Russian subsoil licenses in "Item 4. Information on the Company – Mining Segment" and reserves information. Accordingly, these factors may seriously impair our ability to operate our business and realize our reserves which could have a material adverse effect on our business, financial condition, results of operations and prospects.

[Table of Contents](#)

We are currently in compliance with the material terms of our Russian subsoil licenses, except for the following. We failed to commence commercial coal production at the Rapsadsk license area (part of Olzherassky Open Pit) in 2009 as required by the license due to unfavorable mine economics, but expect to commence such production in the third quarter of 2016 provided coal prices recover sufficiently. In addition, we commenced the development of the coal deposits at the Yerunakovsk-1, Yerunakovsk-2 and Yerunakovsk-3 license areas, but failed to commence commercial production at these license areas in 2011 as required by the licenses due to unfavorable mine economics. Moreover, we cannot fully develop the deposit at the Yerunakovsk-3 license area due to the presence of a third-party sludge pond in this area. Furthermore, we failed to commence commercial coal production at the Olzherassk license area (Olzherasskaya-Glubokaya Underground) due to unfavorable mine economics and the significant capital investments required to develop this license area. The Yerunakovsk-2, Yerunakovsk-3 and Olzherassk (Olzherasskaya-Glubokaya Underground) license areas are not counted for the purposes of our coal reserves.

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

In 2014, our Russian operations purchased approximately 4.8 billion kilowatt-hours ("kWh") of electricity at a total cost of \$327.8 million, implying an average cost of 6.8 cents per kWh. The restructuring of the Russian power sector that began in 2001 is substantially complete and all government regulation of electricity prices in the wholesale power market, except for the sales to household consumers and similar type of consumers, expired in 2011. According to the Ministry of Economic Development of the Russian Federation, the average increase in market prices on the retail electricity market was 6.2-7.0% in 2014, and is expected to be in the range of 6.5-7.9% in 2015. Further price increases for electricity may also occur in the future as the power generating companies created in the restructuring are financed by and controlled to a greater extent by the private sector.

Our Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity at our own co-generation facilities, from Novatek OAO ("**Novatek**"), Russia's largest independent producer of natural gas, and Gazprom OAO ("**Gazprom**"), the government-controlled dominant gas producer and the owner of the unified gas supply system of Russia. Domestic natural gas prices are regulated by the Russian government. In 2014, we purchased 212.2 million cubic meters of gas at a total cost of \$20.5 million. Russian domestic natural gas prices are significantly below Western European levels, which provides us with a cost advantage over our competitors, an advantage which is expected to diminish as Russian domestic gas prices approach Western European levels. Starting from January 1, 2014, the Russian Federal Tariff Service (the "**FTS**") set wholesale prices of gas produced by Gazprom for domestic consumers on the territory of the Russian Federation, except for households, in the range of \$91.7 to \$118.3 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

Following raw materials used in the production process and energy-related costs, our labor costs are the next most significant operational cost. Labor costs in Russia have historically been significantly lower than those in the more developed market economies of North America and Western Europe for similarly skilled employees. However, the average wage in Russia has been rising in recent years. According to Rosstat, after adjusting for inflation, the average wage in the Russian Federation has risen at the annual rate of 1.3%, 4.8% and 8.4% in 2014, 2013 and 2012, respectively. Moreover, labor costs in Russia are indexed to and adjusted for inflation, which means that, due to expected higher inflation rates in 2015 and perhaps in subsequent years, we expect labor costs to rise. We believe our advantage with respect to our competitors with foreign operations that have historically had to pay higher average wages than those paid in Russia may be reduced, including as a result of higher expected inflation.

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

[Table of Contents](#)

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

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

The most significant railcar owners are JSC Freight One, JSC Federal Freight, NefteTransService ZAO, Globaltrans, Rail Garant, RT Operator 000 and ZapSib-Transservice 000. Our cargoes are currently transported in the railcars owned by our subsidiary Mecheltrans or third party railcar owners, mainly to transport coal products and iron ore concentrate. At present, only these third party railcar owners and Russian Railways possess a sufficiently extensive railcar fleet to service our present and future requirements. Mecheltrans works with third party railcar owners to arrange for transportation and forwarding of cargoes with their railcars. In 2014, our freight volume transported by JSC Federal Freight, JSC Freight One, RT Operator 000, ZapSib-Transservice 000, Globaltrans and Rail Garant amounted to 27.1 million tonnes, for which we paid \$217.0 million.

In 2014, railway tariffs were not indexed. However, in 2015, railway tariffs were increased by 10.0%. Starting from January 29, 2015, railway export tariffs for all goods were increased by an additional 13.4%, except for certain grades of coal and middlings for which additional indexation amounted to only 1.3%. Along with the growth of tariff levels, a disruption may occur in the transportation of our raw materials and products due to the oversupply of rolling stock which further aggravates the insufficient capacity of the railway infrastructure. Congestion of the railway infrastructure due to the oversupply of rolling stock may also result in increases in cargo delivery terms. Furthermore, an increase in prices of rolling stock operators' services may occur in the future due to lower turnover of railcars, higher inflation or other reasons. All of the above factors may negatively impact our operating margins and could materially adversely affect our business, financial condition, results of operations and prospects.

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

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

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

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5-15% of the value of the imports. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2014. The Republic of Belarus, the Republic of Kazakhstan and the Russian Federation entered into a Customs Union and implemented a Common Customs Tariff, which came into force on January 1, 2010, reducing import duties on stainless rolled products from 15% to 10%. Starting from January 2, 2015, the Customs Union was enlarged to include the Republic of Armenia. Creation of this Customs Union, as well as other actions and decisions of Russian authorities in respect of tariffs and duties, can lead to further reduction of import duties.

[Table of Contents](#)

On November 20, 2013, the Eurasian Economic Commission initiated an antidumping investigation against imports of steel bars originating in Ukraine. We will benefit from protection of the Customs Union's market from low-priced import of steel bars in case of antidumping duties are imposed.

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

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

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

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

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

We are subject to mining risks.

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

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

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

We are at risk of experiencing any and all of these hazards. The occurrence of such hazards could delay production, increase production costs, result in injury to persons or death, and damage to property, as well as liability for us. For example, on May 30, 2008, there was a cave-in at V.I. Lenina Underground (which led to suspension of operations for 17 calendar days) and on July 29, 2008 there was a methane flash (which led to suspension of operations for 67 calendar days). Both accidents involved multiple casualties, and the first accident resulted in five fatalities. In 2010 through 2012, there were a number of occasions of self-heating and spontaneous ignition of coal as well as an increase of coal dust levels, each of which resulted in the temporary suspension of mining operations at the longwalls of Sibirginskaya Underground, V.I. Lenina Underground and Olzherasskaya-Novaya Underground. There were no casualties involved in any of these occasions. In 2013-2014, there were also a number of occasions which caused the temporary suspension of mining operations, but had no significant effect on our business. We have been and are still implementing measures to cure the causes of these occasions and we are cooperating with the competent governmental authorities, in particular, the Russian Federal Service for Ecological, Technological and Nuclear Supervision ("Rostekhnadzor").

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

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

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

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

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

have been introduced in a number of countries in response to the impacts of climate change. See “– Increased regulations associated with climate change and greenhouse gas emissions may give rise to increased costs and may adversely impact our business and markets.”

Generally, there is a greater awareness in Russia of damage caused to the environment by industry than existed during the Soviet era. At the same time, environmental legislation in Russia is generally weaker and less stringently enforced than in the European Union or the United States. However, recent Russian government initiatives indicate that Russia will introduce new water, air and soil quality standards and increase its monitoring and fines for non-compliance with environmental rules, and environmental concerns are increasingly being voiced at the local level.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2014, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of \$47.2 million for asset retirement obligations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided. We estimated the total amount of capital investments to address environmental concerns at our various subsidiaries at \$23.7 million as of December 31, 2014. These amounts are not accrued in the consolidated financial statements until actual capital investments are made. See note 26(b) to the consolidated financial statements.

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

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

Through our mining and power segments, we are a major producer of carbon-related products such as coal, coal concentrate and energy. Coal and coal-based energy are also significant inputs in many of the operations of our steel segment. A major by-product of the underground mining of coal is methane (CH₄) and a major by-product of coal burning is carbon dioxide (CO₂), both of which are considered to be greenhouse gases and generally a source of concern in connection with global warming and climate change.

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

[Table of Contents](#)

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

The Kyoto Protocol and the EU ETS could restrict our operations and/or impose significant costs or obligations on us, including requiring additional capital expenditures, modifications in operating practices, and additional reporting obligations. These regulatory programs may also have a negative effect on our production levels, profit and cash flows and on our suppliers and customers, which could result in higher costs and lower sales. Inconsistency of regulations particularly between developed and developing countries may also change the competitive position of some of our assets. Finally, we note that even without further legislation or regulation of greenhouse gas emissions, increased awareness and any adverse publicity in the global marketplace about the greenhouse gasses emitted by companies in the steel manufacturing industry could harm our reputation and reduce customer demand for our products.

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

Our operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licenses, permits, approvals and authorizations, as well as with ongoing compliance with existing laws, regulations and standards. See "Item 4. Information on the Company – Regulatory Matters – Licensing of Operations in Russia." Governmental authorities in countries where we operate exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorizations, and in monitoring licensees' compliance with the terms thereof which may result in unexpected audits, criminal prosecutions, civil actions and expropriation of property. Authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year.

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

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

Our Chairman, Igor Zyuzin may be deemed to be the beneficial owner of approximately 67.42% of our common shares. See "Item 7. Major Shareholders and Related Party Transactions." Except in certain cases as provided by the Federal Law "On Joint-Stock Companies," dated December 26, 1995, as amended (the "Joint-Stock Companies Law"), resolutions at a general shareholders' meeting are adopted by a majority of the voting stock at a meeting where shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by a majority of the voting stock present at a general shareholders' meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority of the voting stock present at such a general

shareholders' meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, if other shareholders do not participate in the meeting. Thus, our controlling shareholder can take actions that you may not view as beneficial or prevent actions that you may view as beneficial, and as a result, the value of the shares and ADSs could be materially adversely affected.

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

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

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

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

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

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

As of March 31, 2015, six 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 in a certain market, including:

- *Izhstal* – as controlling more than 35% but less than 65% of the market for graded high-speed steel and its substitute and more than 65% of the market for small shaped graded high-speed steel;
- *Vyartsilya Metal Products Plant* – as controlling more than 65% of the market of railroad transportation of cargo for third parties and companies on the track section from Vyartsilya village to Vyartsilya station;
- *Kuzbass Power Sales Company* – as controlling more than 50% of the electricity trading market in the Kemerovo region;
- *Mechel Energo* – (i) as controlling more than 50% of the electricity trading market within the administrative boundaries of the Kemerovo region except for the area of operations of Metallenergofinance OOO and Oboronenergosbyt OAO and (ii) as controlling more than 50% of the market of steam and heat energy generation in Chelyabinsk within the territory of Mechel Energo's heat grids;

[Table of Contents](#)

- *Yakutugol* – 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
- *Moscow Coke and Gas Plant* – as controlling more than 65% of the market for cargo transportation services on the company's rail siding in the Lenin district of the 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 in a certain market, this does not by itself result in restrictions on the activities of such entities. However, these entities may be subject to additional FAS oversight by reason of their having been deemed to have a dominant market position.

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

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

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

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

In the event of a breach of the terms of business conduct set forth by the FAS, the FAS may seek to impose fines for violations of antimonopoly and administrative legislation. Such fines may include an administrative fine of an amount from 300 thousand to one million rubles or, if such violation has led or may lead to the prevention, limitation or elimination of competition, an administrative fine of up to 15% of the proceeds of sale of all goods, works and services on the market where such violation was committed, but not more than 2% of gross proceeds

[Table of Contents](#)

of sale of all goods, works and services. Russian legislation also provides for criminal liability for violations of antimonopoly legislation in certain cases. Furthermore, for systematic violations, a court may order, pursuant to a suit filed by the FAS, a compulsory split-up or spin-off of the violating company, and no affiliation can be preserved between the new entities established as result of such a mandatory reorganization. The imposition of any such liability on us or our subsidiaries could materially adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

We own less than 100% of the equity interests in some of our subsidiaries. In addition, certain of our wholly-owned subsidiaries have previously had other shareholders. We and our subsidiaries have carried out, and continue to carry out, transactions among our companies and affiliates, as well as transactions with other parties which may be considered to be “interested party transactions” under Russian law, requiring approval by

disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature and value of the transaction and the parties involved. The provisions of Russian law defining which transactions must be approved as interested party transactions are subject to different interpretations, and these transactions may not always have been properly approved, including by former shareholders. We cannot make any assurances that our and our subsidiaries' applications of these rules will not be subject to challenge by shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

As of December 31, 2014, approximately 61% of all our employees were represented by trade unions. Although we have not experienced any business interruption at any of our companies as a result of labor disputes from the dates of their respective acquisition by us and we consider our relations with our employees to be good, under Russian law unions have the legal right to strike and other Russian companies with large union representation periodically face interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relationships with our labor force and trade unions worsen in the future. We have signed the industry agreements for coal and ore mining and smelting industries and have renegotiated most related collective bargaining agreements. If we are unable to prolong collective bargaining agreements on similar conditions in the future or our employees are dissatisfied with the terms of the collective bargaining agreements and undertake any industrial action, it could have material adverse effects on our business, financial condition, results of operations and prospects.

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

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our Russian production facilities are not insured, and we have no

[Table of Contents](#)

coverage for business interruption or for third-party liability, other than insurance required under Russian law, collective agreements, loan agreements or other undertakings. Some of our international production facilities are not covered by comprehensive insurance typical for such operations in Western countries. We cannot assure you that the insurance we have in place is adequate for the potential losses and the liability we may suffer.

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

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

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

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

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

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

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

We have sourced certain information contained in this document from independent third parties, including private companies, government agencies and other publicly available sources. We believe these sources of information are reliable and that the information fairly and reasonably characterizes the industry in countries

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

Risks Relating to Our Shares and the Trading Market

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

The United States and the European Union introduced sanctions against certain Russian companies and individuals as a result of the crisis in Ukraine. If current sanctions are maintained and/or further sanctions introduced, the trading market for our shares and ADSs and the rights of our shareholders and ADS holders could be materially adversely affected. See “– Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.”

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

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

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

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

- investor perception of us as a company;
- actual or anticipated fluctuations in our revenues or operating results;
- announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;
- changes in our dividend policy, which could result from changes in our cash flow and capital position;
- sales of blocks of our common shares, common ADSs, preferred shares or preferred ADSs by significant shareholders, including the Justice persons;
- price and timing of any refinancing of our indebtedness;

- potential litigation involving us;
- changes in financial estimates and recommendations by securities research analysts;
- fluctuations in Russian and international capital markets, including those due to events in other emerging markets;
- the performance of other companies operating in similar industries;
- regulatory developments in the markets where we operate, especially Russia and the European Union;
- international political and economic conditions, including the effects of fluctuations in foreign exchange rates, interest rates and oil prices and other events such as terrorist attacks, military operations, changes in governments and relations between countries, international sanctions, particular those currently in place against certain Russian companies and individuals, natural disasters and the uncertainty related to these developments;
- news or analyst reports related to markets or industries in which we operate; and
- general investor perception of investing in Russia.

As a result of deteriorating market conditions in 2014 for our main products, together with our high leverage, our shares and ADSs price dropped significantly in 2014, and ADSs started trading below one U.S. dollar. As of October 24, 2014, the 30 trading-day average closing price of Mechel ADSs amounted to \$0.99 and as a result Mechel ADSs became noncompliant with one of the NYSE continuous listing standards, regarding which we received official notice from the NYSE on October 30, 2014. According to NYSE rules, we had six months from the date of receipt of the NYSE notice to bring our share price back into compliance with the listing standards. During this six-month period, our shares continued to trade on the NYSE.

On January 29, 2015, the closing price for Mechel ADSs surpassed the \$1.00 threshold and continued to grow throughout February 2015. On February 27, 2015, the 30 trading-day average closing price of ADSs amounted to \$1.26 per ADS. As a result, we received official notice from the NYSE on March 2, 2015 that our ADSs came back into compliance with the listing standards.

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

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

Furthermore, the payment of dividends by our subsidiaries and/or our ability to repatriate such dividends may, in certain instances, be subject to taxes, statutory restrictions, retained earnings criteria, and covenants in our subsidiaries’ financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. See note 19 to the consolidated financial statements.

[Table of Contents](#)

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

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

In addition to the new recording system, the Federal Law No. 415-FZ also sets forth new obligations for a depositary to disclose information on 'depositary receipt owners' in order to exercise voting rights and to receive dividends with respect to the shares represented by depositary receipts. The FFMS by its Order No. 13-7/pz-n dated February 5, 2013 sets forth the requirements for the provision of information about the depositary receipt owners. Such information is provided to the issuer in the form of a list of persons who exercise the rights under the depositary receipts. The list is provided to the issuer by the foreign depositary which opens the depo account of depositary programs. The list is provided for the preparation and holding of a shareholders' meeting. Furthermore, any obligations of the depositary to disclose information on depositary receipt owners in order to receive dividends were abolished effective January 1, 2014 pursuant to the Federal Law No. 282-FZ of December 29, 2012, as amended ("**Federal Law No. 282-FZ**"). Under the Federal Law No. 282-FZ, the payment of dividends on the shares represented by depositary receipts is made to the foreign depositary which opens the depo account of depositary programs.

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

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

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

If at any time the depositary believes that the shares deposited with it against the issuance of ADSs represent (or, upon accepting any additional shares for deposit, would represent) a percentage of shares which exceeds any

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

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

ADS holders have no direct voting rights with respect to the shares represented by the ADSs. They can only exercise voting rights with respect to the shares represented by ADSs in accordance with the provisions of the deposit agreements relating to the ADSs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps which are involved. For example, the Joint-Stock Companies Law and our charter require us to notify shareholders not less than 30 days prior to the date of any meeting of shareholders and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors, *inter alia*, via (i) publication of a notice in the Russian official newspaper *Rossiyskaya Gazeta* and disclosure on our website at www.mechel.ru or (ii) disclosure on our website at www.mechel.ru. Our common shareholders, as well as our preferred shareholders in cases when they have voting rights, are able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

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

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

ADS holders may be unable to repatriate their earnings.

Dividends that we may pay in the future on the shares represented by the ADSs will be declared and paid to the depositary in rubles. Such dividends will be converted into U.S. dollars by the depositary and distributed to holders of ADSs, net of the fees and charges of, and expenses incurred by, the depositary, together with taxes withheld and any other governmental charges. The ability to convert rubles into U.S. dollars is subject to the currency markets. Although there is an active market for the conversion of rubles into U.S. dollars, including the

interbank currency exchange and over-the-counter and currency futures markets, the functioning of this market in the future is not guaranteed and, in particular may be negatively impacted by any future imposition of exchange controls imposed by the Russian authorities in an effort to stabilize the value of the ruble.

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

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

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

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

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

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

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

Our presence outside the United States may limit ADS holders’ legal recourse against us. Mechel is incorporated under the laws of the Russian Federation. Most of our directors and executive officers reside outside the United States, principally in Russia. A substantial portion of our assets and the assets of most of our directors

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

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

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

As of the date of this document, of the 138,756,915 issued preferred shares, 40% are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by the public and may be held by James C. Justice II, James C. Justice III, James C. Justice Companies Inc. and Jillean L. Justice (collectively, the "**Justice persons**"). The Justice persons disposed or may dispose of all or part of the remaining preferred shares they held through one or more offerings or broker trades. It is also possible that we may decide to offer additional preferred shares and preferred ADSs in the future, including preferred shares held by Skyblock Limited. Additional offerings or sales of preferred shares and preferred ADSs by us or the Justice persons, or the public perception that such offerings or sales may occur, could have an adverse effect on the market price of our preferred shares and preferred ADSs.

Risks Relating to the Russian Federation

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

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that the value of securities of Russian companies is subject to rapid and wide fluctuations due to various factors. For example, the military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia and the current situation in Ukraine and Crimea resulted in significant price declines in securities of Russian companies and capital outflows from Russia. The escalation of the present situation or the emergence of new tensions between Russia and other countries may lead to further reductions in the price of Russian securities. We cannot assure you that any such developments will not have a material adverse effect on our business, financial condition, results of operations and prospects, and the value of our shares and ADSs is expected to be highly volatile while the crisis in Ukraine remains unresolved and/or the Russian economy continues to deteriorate.

Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set forth in this document may become outdated relatively quickly. Moreover, financial

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

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

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

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

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

In part as a result of political tensions, international sanctions, ruble volatility and the drop in the oil price, in April 2014, Standard & Poor's lowered the Russian Federation's foreign currency rating to "BBB-/A-3" and local currency (long- and short-term) rating to "BBB/A-2", both with a negative outlook. In October 2014, Moody's Investors Service lowered Russia's government bond rating to Baa2 from Baa1, further downgrading it in January 2015 to Baa3, with a negative outlook. In January 2015, Fitch downgraded the Russian Federation's long-term foreign and local currency Issuer Default Rating to "BBB-" with a negative outlook.

[Table of Contents](#)

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

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

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

Starting from March 2014, the United States introduced sanctions against Russian and Ukrainian persons and entities perceived to have been involved in the crisis in Ukraine, certain senior officials of the Russian Federation, or vocal supporters of Russia's position in the Ukrainian crisis. Pursuant to these orders, a number of prominent Russian and Ukrainian government officials, politicians and businessmen have been sanctioned, blocking all of their property within the United States, denying them entry into the United States and effectively foreclosing them from using the United States economic and financial system.

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

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

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

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

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

[Table of Contents](#)

and businesses in Crimea and Sevastopol, on the export of a wide range of goods and technology to Crimean companies or for use in Crimea, and on services related to tourism activities in Crimea and Sevastopol.

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

Since August-September 2014, the European Union has also imposed restrictions on the transfer of certain technologies for the oil and gas industry in Russia and certain goods and services for deep water, Arctic or shale oil projects in Russia.

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

Two entities within our group are U.S. persons (such entities being technical companies within our transport division that we expect will be liquidated in 2015). Some other entities within our group are E.U. persons. These entities are therefore required to comply with the U.S. and E.U. sanctions, respectively, including not conducting business with any sanctioned persons. Most of the group entities, however, are neither U.S. persons nor E.U. persons, and therefore are restricted in dealings with sanctioned persons only to the extent those dealings are subject to U.S. and/or E.U. jurisdiction. However, the United States takes a broad view with respect to its sanctions jurisdiction, and there can be no assurance that compliance issues under applicable U.S. and/or E.U. sanctions laws and regulations will not arise with respect to us or our personnel. In particular, because the above discussed sanctions are very recent, their scope and consequences remain subject to interpretation by competent authorities and courts in the United States and the European Union, and no assurance can be given that a broader interpretation may not affect any of the group entities. Non-compliance with applicable sanctions could result in, among other things, the inability of the relevant group entities to contract with U.S. and/or E.U. governments or

their agencies, civil or criminal liability of such entities and/or their personnel under U.S. and/or E.U. law, the imposition of significant fines, and negative publicity and reputational damage. In addition, should our dealings with sanctioned counterparties become material, our ability to transact with U.S. or E.U. persons could be affected. As a result, our ability to raise funding from international financial institutions or the international capital markets may be inhibited.

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

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

The Ukrainian economy is also facing significant risks during this period of uncertainty. In the year ended December 31, 2014, revenues from exports to Ukraine were \$105.5 million, or 1.6% of our total revenues, which could decrease in the current year. As a consequence, any adverse effect on the Ukrainian economy could have an adverse impact on our financial condition and results of operations.

Economic risks

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

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

evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

From 2000 to 2008, the Russian economy experienced positive trends, such as annual increases in the gross domestic product (“GDP”), a relatively stable ruble, strong domestic demand, rising real wages and reduced rates of inflation. However, these trends were interrupted by the global financial crisis in late 2008, which led to a substantial decrease in the GDP’s growth rate, ruble depreciation and a decline in domestic demand. The Russian government took certain anti-crisis measures using the “stabilization fund” and hard currency reserves in order to soften the impact of the economic crisis on the Russian economy and support the value of the ruble. As a result, following a decline in 2009, Russian GDP grew by 4.5% in 2010, 4.3% in 2011, 3.4% in 2012 and 1.3% in 2013, according to Rosstat. More recently, the economic slowdown in emerging market economies, including Russia, as well as political and other disturbances in emerging markets have introduced additional uncertainty in the overall outlook for growth of the global economy. Growth in the Russian economy has slowed down considerably, recording GDP growth in 2014 of 0.6%, according to Rosstat, as a result of an array of factors, including negative investor sentiment arising from the disturbances in eastern Ukraine, international sanctions imposed on Russian companies and individuals, substantial depreciation of the ruble against major world currencies and the precipitous drop in oil prices. See “– Risks Relating to the Russian Federation – The current political and economic crisis in Ukraine and related sanctions imposed by the United States and the European Union may have a material adverse effect on our business, liquidity and financial condition, as well as the value of our shares and ADSs.” According to the Ministry of Economic Development of the Russian Federation, the Russian economy is expected to contract by 3.0% in 2015. Further economic instability in Russia could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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

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

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

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

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

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

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

The global economic crisis, social and political instability in some Middle East countries and recently in Ukraine and other negative developments in various countries have resulted in increased volatility in the capital markets in many countries, including Russia. As has happened in the past, financial problems in emerging market economies or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. In addition, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil or international sanctions against the Russian oil industry could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Such has occurred in recent months as crude oil prices have dropped by nearly 49.2% between January 1, 2014 and January 1, 2015 and by an additional 1.4% in the first quarter of 2015 (according to Intercontinental Exchange), the Russian financial markets have experienced significant volatility in the second half of 2014 and expect to continue experiencing such volatility in 2015 and the ruble's value against major world currencies has fallen significantly. See "— Risks Relating to Our Financial Condition and Financial Reporting — Changes in the exchange rate of the ruble against the U.S. dollar and in interest rates may materially adversely affect our business, financial condition and results of operations." Russia is also one of the world's largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of international sanctions, tariffs and/or antidumping measures by any of its principal export markets.

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

In addition, a deterioration in macroeconomic conditions could require us to reassess the value of goodwill on certain of our assets, recorded as the difference between the fair value of the net assets of business acquired and its purchase price. This goodwill is subject to impairment tests on an ongoing basis. The weakening macroeconomic conditions in the countries in which we operate and/or a significant difference between the performance of an

acquired company and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 24 to the consolidated financial statements.

Political and social risks

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

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

Tensions in Russia's relations with other countries and world bodies or conflicts between the government and powerful business groups or among such business groups could disrupt or reverse political, economic and regulatory reforms and also lead to restrictions on our business and a negative impact on Russia's economy and investment climate. Any disruption or reversal of reform policies or economic downturn could lead to social, political or governmental instability or the occurrence of conflicts between various groups, which could have a material adverse effect on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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

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

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

Currently the Russian labor market suffers from a general shortage of skilled and trained workers, and we compete with other Russian companies to hire and retain such workers. In Russia, the working age population has declined due to a relatively low birth rate at the end of the 1980s and through the early 1990s. As of January 1, 2015, Rosstat estimated Russia's population at 146.3 million, a decline of 2.2 million from 1992. In recent years, declines in population levels slowed down as a result of an increase in migration and a reduction in the natural decline of the population; in 2014, the population level in fact increased. However, the birth rate remains relatively low, which together with the aging and high mortality of the population, is the main problem of Russia's demographic development. Russia's working age population is estimated to decline by 10-13 million by 2025. A shortage of skilled Russian labor combined with restrictive immigration policies could materially adversely affect our business, financial condition, results of operations and prospects.

Legal risks and uncertainties

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

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

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

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

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

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

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

- inconsistencies between and among the Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;

- conflicting local, regional and federal rules and regulations;
- rapid enactment of many laws and regulations resulting in their ambiguities and inconsistencies;
- the lack of fully developed corporate and securities laws;
- substantial gaps in the regulatory structure due to the delay or absence of implementing legislation;
- changes in the Russian court system, in particular, the merger of the Supreme Arbitrazh Court with the Russian Supreme Court;
- the relative inexperience of judges in interpreting legislation and contradictory judicial interpretations of the law;
- the lack of full independence of the judicial system from commercial, political and nationalistic influences;
- difficulty in enforcing court orders;
- a high degree of discretion or arbitrariness on the part of governmental authorities; and
- still-developing bankruptcy procedures that are subject to abuse. See “— Risks Relating to Our Financial Condition and Financial Reporting – We may become subject to bankruptcy procedures, which may result in the inability of holders of our shares and ADSs to recover any of their investments.”

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

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

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

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.

[Table of Contents](#)

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

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

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

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

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

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

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

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

The Civil Code and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their

investment. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is deemed an “effective parent.” The entity whose decisions are capable of being so determined is deemed an “effective subsidiary.” Under the Joint-Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

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

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

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

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

- decisions with respect to a reorganization;
- the approval by shareholders of a “major transaction,” which, in general terms, is a transaction involving property worth more than 50% of the gross book value of the company’s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated, except for transactions undertaken in the ordinary course of business;
- the amendment of the company’s charter or approval of a new version of the company’s charter that limits shareholder rights; and
- a decision to apply for delisting of the company’s shares or securities convertible into shares.

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

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

Ownership of Russian joint-stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no single central registration system in Russia. Share registers can be maintained only by licensed registrars located throughout Russia. Regulations have been adopted regarding the licensing conditions for such registrars, as well as the procedures to be followed by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and

registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depositary, under the terms of the deposit agreements governing record keeping and custody of our ADSs, is not liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Item 10. Additional Information – Description of Capital Stock – Registration and transfer of shares."

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

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

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

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

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

Since May 2009, in connection with the proposal expressed by the Russian President in his Budget Message regarding the budget policy for 2010-2012, an overhaul of the anti-avoidance mechanism of double tax treaties has begun. In November 2014, Russian legislation was significantly revised in order to prevent unlawful use of low-tax jurisdictions for tax evasion in the Russian Federation. The amendments in the legislation set out the rules for the taxation of income of a foreign organization that is deemed to be a controlled foreign company. A

foreign organization is recognized as a controlled foreign company if it is not a tax resident of the Russian Federation and the participation interest of the controlling legal entities or individuals in the organization is more than 10% (during the transition period, namely until January 1, 2016, more than 50%). The transition period also provides for a gradual reduction in the size of non-taxable profit, in particular, to 50 million rubles, 30 million rubles and 10 million rubles in 2015, 2016 and 2017 and thereafter, respectively. Starting from 2015, these changes in tax regulations could increase the tax burden on companies which are recognized to be controlled foreign companies. In addition, Russian companies are required to disclose information about controlled foreign companies to the Russian tax authorities. All of these measures are intended to ensure the transparency of economic transactions, including foreign trade transactions. Disclosure of beneficial ownership, beneficial recipients of income and tax residence of legal entities at their actual place of business is, according to the new legislation, a prerequisite for the application of tax preferences, including reduced tax rates under international double tax treaties. Furthermore, in November 2014, Russia ratified the Convention on Mutual Administrative Assistance in Tax Matters which provides for the potential exchange of tax information, including simultaneous tax inspections with Member States of the Council of Europe and member countries of the Organization for Economic Co-operation and Development (OECD), which signed the convention, as well as for assistance in the collection of taxes on their territories.

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

However, regardless of being a member of the consolidated group of taxpayers or not, Mechel and our Russian subsidiaries pay Russian taxes on dividends they receive from other companies in our group. In 2015, the tax rate on dividend income amounts to 0% or 13% (depending on whether the recipient of dividends qualifies for Russian participation exemption rules) if being distributed to Russian companies, and 15% (or lower, subject to benefits provided by relevant double tax treaties) if being distributed to foreign companies which are not controlled foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 13%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or an international tax agreement.

In addition, application of current Russian thin capitalization rules and the developing negative court practice on such disputes, including at the level of the Presidium of the Supreme Arbitrazh Court of the Russian Federation, may affect our ability to pay interest on loans in full. In particular, taking into account the requirements of Russian law and negative court practice on thin capitalization, it is practicable to withhold as a dividend tax a part of the interest on borrowings of our subsidiaries which are either received from Mechel or

received from independent banks and guaranteed by Mechel. In addition, part of interest on these borrowings may not be treated as expenses for tax purposes under certain conditions provided by thin capitalization rules.

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

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

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

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

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

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

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

Therefore, any transfer, directly or indirectly, to a foreign investor or its group of entities (except for the transfer to a foreign investor controlled by the Russian Federation, the constituent entity of the Russian Federation and/or Russian nationals provided such Russian nationals are Russian tax residents and do not have dual nationality) of a stake or certain rights in or fixed assets (equal to 25% or more of the balance sheet value of the relevant entity) of Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and Urals