Mechel OAO
Form 20-F
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

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

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

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

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 001-32328

MECHEL OAO

(Exact name of Registrant as specified in its charter)

RUSSIAN FEDERATION

(Jurisdiction of incorporation or organization)

Krasnoarmeyskaya Street 1, Moscow 125993, Russian Federation

(Address of principal executive offices)

Vladislav Zlenko, tel.: +7-495-221-8888, e-mail: vladislav.zlenko@mechel.com

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

416,270,745 common shares, of which 98,761,004 shares are in the form of common ADSs as of March 31, 2012

138,756,915 preferred shares (including 55,502,766 shares held by Skyblock Limited, a wholly-owned subsidiary of Mechel), of which 25,209,577 shares are in the form of preferred ADSs as of March 31, 2012

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

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

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

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

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

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

Item 17 ¨ Item 18 ¨

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

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

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

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

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

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

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

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

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

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

Name as Used in This Document	Official Name	Location
Mining Segment		
Southern Kuzbass Coal Company	Southern Kuzbass Coal Company OAO	Russia, Kemerovo region
Tomusinsky Open Pit	Tomusinsky Open Pit Mine OAO	Russia, Kemerovo region
Korshunov Mining Plant	Korshunov Mining Plant OAO	Russia, Irkutsk region
Port Posiet	Port Posiet OAO	Russia, Primorsk Krai
Yakutugol	Yakutugol Holding Company OAO	Russia, Sakha Republic
Port Temryuk	Port Mechel Temryuk OOO	Russia, Krasnodar Krai
Port Vanino	Port Mechel Vanino OOO	Russia, Khabarovsk Krai
Bluestone or Bluestone companies	Bluestone Industries, Inc., Dynamic Energy, Inc., JCJ Coal Group, LLC, and other subsidiaries carrying out the Bluestone business	United States, West Virginia
Mechel Mining	Mechel Mining OAO	Russia, Moscow
Mechel Mining Management	Mechel Mining Management Company OOO	Russia, Kemerovo region
Mechel Engineering	Mechel Engineering OOO	Russia, Moscow
Moscow Coke and Gas Plant[(1)]	Moscow Coke and Gas Plant OAO	Russia, Moscow region
Mechel Coke[(1)]	Mechel Coke OOO	Russia, Chelyabinsk region
Steel Segment		
Chelyabinsk Metallurgical Plant	Chelyabinsk Metallurgical Plant OAO	Russia, Chelyabinsk region
Vyartsilya Metal Products Plant	Vyartsilya Metal Products Plant ZAO	Russia, Karelian Republic
Beloretsk Metallurgical Plant	Beloretsk Metallurgical Plant OAO	Russia, Bashkortostan Republic
Mechel Targoviste	Mechel Targoviste S.A.	Romania
Donetsk Electrometallurgical Plant	Donetsk Electrometallurgical Plant PJSC	Ukraine, Donetsk region
Urals Stampings Plant	Urals Stampings Plant OAO	Russia, Chelyabinsk region
Mechel Campia Turzii	Mechel Campia Turzii S.A.	Romania
Mechel Nemunas	Mechel Nemunas Co. Ltd.	Lithuania
Izhstal	Izhstal OAO	Russia, Udmurt Republic
Port Kambarka	Port Kambarka OAO	Russia, Udmurt Republic
Ductil Steel	Ductil Steel S.A.	Romania
Mechel-Steel Management	Mechel-Steel Management OOO	Russia, Moscow
Laminorul Plant	Laminorul S.A.	Romania

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Name as Used in This Document	Official Name	Location
Ferroalloys Segment		
Southern Urals Nickel Plant	Southern Urals Nickel Plant OAO	Russia, Orenburg region
Bratsk Ferroalloy Plant	Bratsk Ferroalloy Plant OOO	Russia, Irkutsk region
Oriel Resources	Oriel Resources Limited	United Kingdom
Tikhvin Ferroalloy Plant	Tikhvin Ferroalloy Plant OOO	Russia, Leningrad region
Mechel Ferroalloys Management	Mechel Ferroalloys Management OOO	Russia, Moscow
Power Segment		
Southern Kuzbass Power Plant	Southern Kuzbass Power Plant OAO	Russia, Kemerovo region
Kuzbass Power Sales Company	Kuzbass Power Sales Company OAO	Russia, Kemerovo region
Mechel Energo	Mechel Energo OOO	Russia, Moscow
Toplofikatsia Rousse	Toplofikatsia Rousse EAD	Bulgaria
Marketing and Distribution		
Mechel Carbon	Mechel Carbon AG	Switzerland, Baar
Mechel Trading	Mechel Trading AG	Switzerland, Baar
Mechel Trading House	Mechel Trading House OOO	Russia, Moscow
Mechel Service Global	Mechel Service Global B.V.	Netherlands
Mechel Service	Mechel Service OOO	Russia, Moscow
HBL Holding	HBL Holding GmbH	Germany
Mechel Mining Trading House	Mechel Mining Trading House OOO	Russia, Moscow
Other		
Mecheltrans	Mecheltrans OOO	Russia, Moscow
Mecheltrans Management	Mecheltrans Management OOO	Russia, Moscow

(1) Moscow Coke and Gas Plant and Mechel Coke were transferred to our mining segment in the second quarter of 2010. In prior periods, they were included in our steel segment. The data for prior periods included herein was restated accordingly to account for these facilities in the mining segment.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- strategies, outlook and growth prospects;
- the ability to maintain sufficient cash and other liquid resources to meet our operating and debt service requirements and our ability to comply with the covenants in our financing agreements;
- the impact of competition;
- costs of our acquisitions and ability to realize expected synergies and other benefits;
- capital expenditures;
- growth in demand for our products;
- economic outlook and industry trends;
- transactions with related parties;
- regulatory compliance;
- developments in our markets;
- future plans and potential for future growth;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management s examination of historical operating trends, data contained in our records and other data

available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. See Item 3. Key Information Risk Factors for a discussion of important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements.

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

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PART I

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

Not applicable.

Item 2. ***Offer Statistics and Expected Timetable***

Not applicable.

Item 3. ***Key Information***

Selected Financial Data

The financial data set forth below as of December 31, 2011, 2010, 2009, 2008 and 2007, and for the years then ended, have been derived from our consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**[1]).

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

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands of U.S. dollars, except per share data)				
Consolidated statements of income and comprehensive income data:					
Revenue, net	12,546,285	9,746,036	5,754,146	9,950,705	6,683,842
Cost of goods sold	(8,221,251)	(6,149,310)	(3,960,693)	(5,260,108)	(4,166,864)
Gross profit	4,325,034	3,596,726	1,793,453	4,690,597	2,516,978
Selling, distribution and operating expenses	(2,493,371)	(2,064,519)	(1,547,809)	(2,134,328)	(1,119,385)
Operating income	1,831,663	1,532,207	245,644	2,556,269	1,397,593
Other (expense) income, net	(668,336)	(563,577)	(150,420)	(1,208,001)	(12,146)
Income from continuing operations, before income tax	1,163,327	968,630	95,224	1,348,268	1,385,447
Income tax expense	(359,880)	(276,656)	(18,893)	(118,887)	(356,320)
Income from continuing operations, net of tax	803,447	691,974	76,331	1,229,381	1,029,127
Discontinued operations, net of tax					158
Net income	803,447	691,974	76,331	1,229,381	1,029,285
Less net income attributable to non-controlling interests	(75,562)	(34,761)	(2,590)	(88,837)	(116,234)
Net income attributable to shareholders of Mechel OAO	727,885	657,213	73,741	1,140,544	913,051
Dividends on preferred shares	(78,281)	(8,780)	(134,498)		
Net income (loss) attributable to common shareholders of Mechel OAO	649,604	648,433	(60,757)	1,140,544	913,051
Net income	803,447	691,974	76,331	1,229,381	1,029,285
Currency translation adjustment	(170,794)	(26,218)	(325,353)	(289,633)	157,288
Change in pension benefit obligation	(7,160)	(9,466)	(10,155)	87,659	(14,365)
Adjustment of available-for-sale securities	(2,245)	4,838	(5,178)	(6,571)	(5,059)
Additional minimum pension liability					
Comprehensive income (loss)	623,248	661,128	(264,355)	1,020,836	1,167,149
Less comprehensive income (loss) attributable to non-controlling interests	(50,527)	(32,498)	6,759	(26,822)	(136,849)
Comprehensive income (loss) attributable to shareholders of Mechel OAO	572,721	628,630	(257,596)	994,014	1,030,300
Earnings (loss) per share from continuing operations	1.56	1.56	(0.15)	2.74	2.19
Net income (loss) per share	1.56	1.56	(0.15)	2.74	2.19
Cash dividends per common share	0.31	0.03	0.18	1.12	0.76
Cash dividends per preferred share	0.94	0.11	1.62	0.00	0.00
Weighted average number shares outstanding	416,270,745	416,270,745	416,270,745	416,270,745	416,270,745
Mining segment statements of income and comprehensive income data[(2)]:					
Revenue, net	5,192,028	3,856,165	2,111,990	4,566,354	2,294,746
Cost of goods sold	(2,304,892)	(1,739,350)	(1,271,055)	(1,698,828)	(1,256,208)
Gross profit	2,887,136	2,116,815	840,935	2,867,526	1,038,538
Selling, distribution and operating expenses	(1,195,750)	(930,923)	(635,766)	(1,040,352)	(410,751)

Operating income	1,691,385	1,185,892	205,169	1,827,174	627,787

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands of U.S. dollars, except per share data)				
Steel segment statements of income and comprehensive income data[2]:					
Revenue, net	7,464,833	5,833,677	3,302,302	5,360,252	4,101,762
Cost of goods sold	(6,337,704)	(4,727,243)	(2,664,292)	(3,868,358)	(3,137,744)
Gross profit	1,127,129	1,106,434	638,010	1,491,894	964,018
Selling, distribution and operating expenses	(935,381)	(808,877)	(656,507)	(745,380)	(483,075)
Operating income (loss)	191,748	297,557	(18,497)	746,514	480,943
Ferroalloys segment statements of income and comprehensive income data[2]:					
Revenue, net	674,445	629,052	430,809	584,631	636,656
Cost of goods sold	(641,696)	(533,928)	(392,428)	(571,221)	(253,725)
Gross profit	32,749	95,124	38,381	13,410	382,931
Selling, distribution and operating expenses	(77,661)	(72,166)	(65,967)	(63,986)	(32,824)
Operating (loss) income	(44,912)	22,958	(27,586)	(50,576)	350,107
Power segment statements of income and comprehensive income data[2]:					
Revenue, net	1,283,473	1,062,678	872,783	1,028,110	598,515
Cost of goods sold	(975,136)	(763,401)	(642,512)	(714,094)	(393,153)
Gross profit	308,337	299,277	230,271	314,016	205,362
Selling, distribution and operating expenses	(284,579)	(252,553)	(189,569)	(284,610)	(192,735)
Operating income	23,759	46,724	40,702	29,406	12,627
Consolidated balance sheet data (at period end):					
Total assets	19,306,237	15,778,164	13,183,311	12,009,634	9,227,643
Equity attributable to shareholders of Mechel OAO	4,990,764	4,627,836	4,034,732	4,015,823	3,504,933
Equity attributable to non-controlling interests	374,562	323,175	295,957	305,838	300,523
Long-term debt, net of current portion	6,745,524	5,240,620	4,074,458	219,816	2,321,922
Consolidated cash flows data:					
Net cash provided by (used in) operating activities	888,202	(147,371)	561,669	2,229,941	904,969
Net cash used in investing activities	(2,620,781)	(1,119,203)	(709,931)	(3,249,737)	(3,408,088)
Net cash provided by financing activities	2,079,055	1,210,125	375,434	1,247,623	2,547,503
Non-U.S. GAAP measures[3]:					
Consolidated Adjusted EBITDA	2,393,104	2,015,446	686,641	3,017,103	1,718,499
Mining Segment Adjusted EBITDA	2,023,827	1,467,936	451,952	2,129,313	768,220
Steel Segment Adjusted EBITDA	318,875	413,577	100,170	877,427	630,497
Ferroalloys Segment Adjusted EBITDA	45,879	94,431	34,940	(33,287)	365,008
Power Segment Adjusted EBITDA	36,537	60,426	53,721	55,854	28,709

(1) The value of property, plant and equipment pertaining to noncontrolling shareholders in the accounting for non-controlling interests resulting from acquisitions of various subsidiaries before January 1, 2009 was recorded at appraised values rather than at historical cost as required by the then effective U.S. GAAP.

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

(3) Adjusted EBITDA represents net income before depreciation, depletion and amortization, foreign exchange gain/(loss), gain/(loss) from remeasurement of contingent liabilities at fair value, interest expense, interest income, net result on the disposal of non-current assets,

amount attributable to non-controlling interests and income taxes.

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

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands of U.S. dollars)				
Consolidated Adjusted EBITDA reconciliation:					
Net income attributable to shareholders of Mechel OAO	727,885	657,213	73,741	1,140,544	913,051
Add:					
Depreciation, depletion and amortization	561,111	474,580	406,675	463,297	290,315
Foreign exchange loss (gain)	117,076	14,544	174,336	877,428	(54,700)
Loss (gain) from remeasurement of contingent liabilities at fair value	1,760	1,630	(494,238)		
Interest expense	561,490	558,397	498,986	324,083	98,976
Interest income	(16,786)	(17,167)	(21,445)	(11,614)	(12,278)
Net result on the disposal of non-current assets	5,126	14,832	27,103	15,641	10,581
Amount attributable to non-controlling interests	75,562	34,761	2,590	88,837	116,234
Income taxes	359,880	276,656	18,893	118,887	356,320
Consolidated Adjusted EBITDA	2,393,104	2,015,446	686,641	3,017,103	1,718,499
Mining Segment Adjusted EBITDA reconciliation:					
Net income attributable to shareholders of Mechel OAO	1,069,892	756,687	598,156	1,186,087	423,969
Add:					
Depreciation, depletion and amortization	328,521	281,392	231,585	286,626	140,934
Foreign exchange loss (gain)	60,718	(9,353)	(65,954)	148,652	(7,326)
Loss (gain) from remeasurement of contingent liabilities at fair value	1,760	1,630	(494,238)		
Interest expense	310,318	333,684	265,865	127,433	40,343
Interest income	(138,960)	(133,276)	(106,813)	(26,138)	(13,363)
Net result on the disposal of non-current assets	8,609	8,235	7,126	10,448	1,978
Amount attributable to non-controlling interests	80,050	43,130	13,538	65,833	41,454
Income taxes	302,919	185,807	2,687	330,372	140,231
Mining Segment Adjusted EBITDA	2,023,827	1,467,936	451,952	2,129,313	768,220
Steel Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(232,606)	90,847	(262,145)	246,588	354,672
Add:					
Depreciation, depletion and amortization	125,987	110,910	110,292	131,142	119,701
Foreign exchange loss (gain)	80,739	7,141	77,629	330,173	(45,772)
Loss (gain) from remeasurement of contingent liabilities at fair value					
Interest expense	318,956	228,142	221,033	174,175	77,337
Interest income	(13,377)	(34,736)	(43,864)	(72,792)	(29,291)
Net result on the disposal of non-current assets	271	2,803	3,018	3,814	8,614
Amount attributable to non-controlling interests	(9,708)	(12,483)	(14,205)	17,980	19,336
Income taxes	48,613	20,953	8,412	46,347	125,900
Steel Segment Adjusted EBITDA	318,875	413,577	100,170	877,427	630,497

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands of U.S. dollars)				
Ferroalloys Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(71,578)	(186,256)	(309,922)	(283,294)	222,024
Add:					
Depreciation, depletion and amortization	89,986	67,303	48,727	22,738	13,366
Foreign exchange (gain) loss	(24,211)	16,784	162,735	398,768	(1,830)
Loss (gain) from remeasurement of contingent liabilities at fair value					
Interest expense	51,568	133,241	123,589	92,610	1,344
Interest income	(2,117)	(5,350)	(10,041)	(14,404)	(9,848)
Net result on the disposal of non-current assets	1,174	4,723	17,165	142	568
Amount attributable to non-controlling interests	(690)	(630)	451	2,341	52,358
Income taxes	1,747	64,616	2,236	(252,188)	87,026
Ferroalloys Segment Adjusted EBITDA	45,879	94,431	34,940	(33,287)	365,008
Power Segment Adjusted EBITDA reconciliation:					
Net (loss) income attributable to shareholders of Mechel OAO	(5,808)	16,859	1,793	3,037	(13,597)
Add:					
Depreciation, depletion and amortization	16,617	14,975	16,071	22,791	16,314
Foreign exchange (gain) loss	(170)	(28)	(74)	165	228
Loss (gain) from remeasurement of contingent liabilities at fair value					
Interest expense	18,522	19,663	27,828	31,585	20,332
Interest income	(206)	(138)	(56)		(156)
Net result on the disposal of non-current assets	(4,929)	(929)	(205)	1,237	79
Amount attributable to non-controlling interests	5,910	4,744	2,806	2,683	2,346
Income taxes	6,601	5,280	5,558	(5,644)	3,163
Power Segment Adjusted EBITDA	36,537	60,426	53,721	55,854	28,709

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

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

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

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

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

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Adjusted EBITDA does not reflect the impact of foreign exchange gains and losses and gains and losses from remeasurement of contingent liabilities at fair value, which may recur.

Adjusted EBITDA does not reflect the impact of gain / (loss) from remeasurement of contingent liabilities at fair value on our operating performance.

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

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

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

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

Exchange Rates

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

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

	Rubles per U.S. Dollar			
Year Ended December 31,	**High**	**Low**	**Average[1]**	**Period End**
2011	32.68	27.26	29.38	32.20
2010	31.78	28.93	30.38	30.48
2009	36.43	28.67	31.72	30.24
2008	29.38	23.13	24.86	29.38
2007	26.58	24.26	25.58	24.55

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

	Rubles per U.S. Dollar	
	High	**Low**
April 2012	29.80	29.18
March 2012	29.67	28.95
February 2012	30.41	28.95
January 2012	32.20	30.36
December 2011	32.20	30.81
November 2011	31.58	30.10
October 2011	32.68	29.90

The exchange rate between the ruble and the U.S. dollar on May 10, 2012 was 29.81 rubles per one U.S. dollar.

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

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Recent Developments

Dividends

On May 10, 2012, our board of directors recommended that, at the annual general shareholders meeting, our shareholders approve payment of a dividend in the amount of approximately 3.3 billion rubles for common shares and approximately 4.3 billion rubles for preferred shares, of which approximately 1.7 billion rubles will be paid to Skyblock Limited, a wholly-owned subsidiary of Mechel, holding our preferred shares.

Non-compliance with restrictive covenants and related waivers and amendment agreements with our lenders

Primarily as a result of the decline in market prices for our products in the second half of 2011, as of December 31, 2011, we were not in compliance with certain covenants in most of our credit facilities and loans entered into with several different lenders, including certain financial ratios, such as the net borrowings to EBITDA ratio. In April 2012, we obtained waivers from our lenders for such non-compliance. 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 required by some of our facilities, our lenders also approved the restructuring of debt owed to us by a number of 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**). The debt which mostly consists of accounts receivable and amounts to $944.5 million, was restructured pursuant to an agreement entered into between Mechel Carbon and Mechel Trading (together, the **Mechel Entities**) and the owners of the related metallurgical plants (the **Estar Group**) in November 2011 (the **Estar Loan Agreement**). See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with related metallurgical plants and Transactions with Metallurg-Trust and note 9 to our consolidated financial statements. The restructured obligations of the related metallurgical plants are 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. According to the terms of the Estar Loan Agreement, the Mechel Entities facilitated the extension by a bank of a loan to the Estar Group (the **Estar Loan**) for the total amount of approximately $944.5 million secured by cash collateral in the same amount deposited by the Mechel Entities at the bank. The proceeds from the Estar Loan were used by the Estar Group to repay most of the accounts receivable owed to us. If the Estar Loan is not repaid at maturity on September 30, 2012, the bank may foreclose on the cash collateral, and the Mechel Entities will be entitled to enforce the pledge of shares in major related metallurgical plants and/or their parent companies and suretyships from the related metallurgical plants and/or their parent companies provided in favor of Mechel. Enforcing the pledge may cause us to take control over the related metallurgical plants and is subject to approval from the Russian Federal Antimonopoly Service (**FAS**). See also Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting Any material change in our commercial dealings with, non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have a material adverse effect on our business, results of operations and financial condition.

Amendments to and refinancing of certain credit facilities

Between January 1 and April 27, 2012, we conducted negotiations regarding amendments to and refinancing of certain credit facilities through, among others, extending our existing credit facilities with VTB Bank in the total principal amount of approximately $460.0 million and loans from Gazprombank in the total principal amount of approximately $750.0 million for a period of 3 to 5 years with repayment grace periods of up to 3 years. In February and April 2012, we placed non-convertible interest-bearing bonds in an aggregate principal amount of 20.0 billion rubles (approximately $673.4 million) due in 2015, bondholders of series BO-04 bonds in an aggregate principal amount of 5.0 billion rubles have an option to demand repurchase of the bonds at par value in 2014. In April 2012, we entered into a new 5-year credit facility agreement with Gazprombank in the amount of $500.0 million for the purposes of refinancing some of our short-term debt.

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We also amended certain financial covenants for the period from June 2012 to June 2015 in some of our credit facilities and loans. At the same time, in conjunction with the covenant amendment process, additional restrictions were imposed 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. See Item 3. Key Information Risk Factors Risks Relating to Our Financial Condition and Financial Reporting We have not been in compliance with the financial covenants in certain of our credit facilities and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness.

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

We have not been in compliance with the financial covenants in certain of our credit facilities.

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, dispositions of assets, corporate restructurings, investments into certain of our subsidiaries and others, require prior notice to or consent from the respective lenders.

In recent years we have from time to time been in breach of covenants in various loan agreements, but we have received waivers, consents and covenant amendments from the relevant lenders for such breaches. As of December 31, 2011, we were not in compliance with certain covenants in most of our credit facilities and loans entered into with several different lenders, including certain financial ratios, such as the net borrowings to EBITDA ratio. We obtained waivers from our lenders for such non-compliance. In addition, our lenders agreed, among others, to amend certain of the financial covenants for the period from June 2012 to June 2015. At the same time, additional restrictions were imposed 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. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Restrictive Covenants.

Some of our credit facilities contain cross-default provisions that may be triggered by a default under one of 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. Although we believe that we have sought and received waivers for the breaches from our lenders under the relevant credit facilities, due to the presence of cross-default provisions in almost all of our credit facilities, the refusal of any one lender to grant or extend a waiver in the future could result in substantially all of our indebtedness being accelerated even if our other lenders have waived covenant defaults under the respective credit facilities. If our indebtedness is accelerated in full or in part, it could be very difficult in the current financing environment for us to refinance our debt or obtain additional financing, and we could lose our assets, including fixed assets and shares in our subsidiaries, if our lenders foreclose on their liens, which would adversely affect our ability to conduct our business and result in a significant decline in the value of our shares.

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 lenders credit decisions. This, in turn, is subject to general economic, financial, competitive, legislative and other factors that

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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. Any event of default under our loan agreement could result in acceleration of repayment of principal and interest under the relevant loan agreement and any other loan agreement under which a default on such instrument would trigger a cross-default, reduced opportunities for future borrowing, debt service obligations in excess of our ability to pay, liability for damages or inability to further develop our business and pursue our strategic objectives, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We have a substantial amount of outstanding indebtedness.

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 working capital needs and investment program in recent years. A substantial portion of our bank loans are from Russian banks, including state-controlled banks such as Gazprombank, Sberbank and VTB Bank. As of December 31, 2011, our consolidated total debt, including capital lease obligations, was $9,869.0 million, with a short-term portion of $2,748.3 million. Our interest expense for the year ended December 31, 2011 was $561.5 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 55%+1 share of Yakutugol, 55%+1 share of Southern Kuzbass Coal Company, 35% of Chelyabinsk Metallurgical Plant, 25%+1 share of Southern Urals Nickel Plant, 25%+1 share of Beloretsk Metallurgical Plant and 25%+1 share of Korshunov Mining Plant. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders. As of December 31, 2011, the carrying value of property, plant and equipment, inventory, cash and accounts receivable pledged under our loan agreements amounted to $1,269.5 million, representing 6.6% of our total assets.

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, 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.

Between January 1 and April 27, 2012, we conducted negotiations regarding the amendments to and refinancing of some of credit facilities through amending certain financial covenants for the period from June 2012 to June 2015, extending certain of our existing credit facilities for the period of up to 5 years, with repayment grace periods of up to 3 years and raising new funds to be further applied against refinancing of the short-term debt. As of the date of this report, we have extended our existing loans from VTB Bank in the total principal amount of approximately $460.0 million for a period of up to 3 years, as well as our existing loans from Gazprombank in the total principal amount of approximately $750.0 million for a period of 3 to 5 years. In February and April 2012, we placed non-convertible interest-bearing bonds in an aggregate principal amount of 20.0 billion rubles (approximately $673.4 million) due in 2015, bondholders of series BO-04 bonds in an aggregate principal amount of 5.0 billion rubles have an option to demand repurchase of the bonds at par value in 2014. We intend to use the proceeds from the placement to repay the short-term debt which is due in 2012. On April 27, 2012, we obtained a $500.0 million loan from Gazprombank for a term of 5 years with a repayment grace period of 3 years, which we intend to use to reduce short-term debt maturing in 2012 and 2013. See Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. Subject to market conditions and improvement of our corporate ratings, we are also contemplating accessing the

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international debt capital markets with the intention to diversify funding sources, further extend the maturity profile of our debt portfolio and reduce the refinancing risk with the peak repayments in 2013. 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.

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 $1.6 billion during 2011 on our capital expenditures (including $198.8 million in maintenance capital expenditures). In view of our conservative outlook with respect to the financial and commodity markets development for 2012, we have reduced our planned capital expenditures for 2012 by approximately 28% as compared to 2011. In reducing our capital expenditures, we have focused 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 $1.2 billion in 2012 (including up to $199.5 million in maintenance capital expenditures). These planned capital expenditures cover investments in Yakutugol, including those required to be made pursuant to the terms of the subsoil license for the Elga coal deposit. We plan to spend up to $3.3 billion for the three-year period of 2012-2014 on capital investments (including up to $674.6 million in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program. There is also a recent initiative of Russian governmental authorities which would oblige Russian metallurgical companies to increase investment in modernization of obsolete and worn-out equipment. This initiative, if adopted, could require us to increase capital expenditures in our steel segment.

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 that are beyond our control. Attracting 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 commodities and/or steel 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.

Most of our existing borrowings are from Russian and international banks and financial institutions, as well as through Russian ruble bonds. In the future we may also seek to access international capital markets. 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. International credit markets have experienced, and may continue to experience, high volatility and severe liquidity disruptions stemming from the effects of the international financial and economic crisis starting in 2008 and the related global economic slowdown, including the European sovereign debt crisis. These and other related events have had a significant impact on the global financial and capital markets, and we may not be able to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources may negatively impact our ability to sufficiently finance our capital investment program, which might have a material adverse effect on our business, financial condition, results of operations and prospects. See Risks Relating to the Russian Federation Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in developed or other emerging markets could cause the value of our shares and ADSs to fluctuate widely and Risks Relating to the Russian Federation Economic risks The Russian banking system is still developing, and another banking crisis could place severe liquidity constraints on our business.

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We faced a liquidity shortage during the global financial crisis and the resulting global economic slowdown.

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 June 1, 2009. 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. During 2010 and 2011, we further refinanced our credit facilities with syndicated pre-export credit facilities, obtained loans from Russian state-controlled banks 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 at Yakutugol) and financing of the increased level of inventories, primarily, due to expansion of Mechel Service Global s business. As of December 31, 2011, our total indebtedness was $9,396.9 million, an increase of $2,078.5 million from December 31, 2010. Short-term portion of our total indebtedness was $2,651.4 million as of December 31, 2011 as compared to $2,077.8 million as of December 31, 2010. Working capital increased to $1,333.4 million as of December 31, 2011, as compared to $491.4 million as of December 31, 2010. We expect operating cash flows and additional borrowings to provide source of funds in 2012 for debt servicing and refinancing and capital expenditures. Our ability to incur additional debt, however, is limited by our restrictive covenants. We have also engaged in the refinancing of our debt portfolio with longer term debt and reducing the capital expenditure program. See We have a substantial amount of outstanding indebtedness 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 increasingly over time.

In December 2011, Moody s Investors Service changed the rating outlook for Mechel to negative from stable in response to our disclosure that we were close to violating financial covenants in a number of our loan agreements. The change of outlook may reduce our opportunities to raise necessary debt financing as well as negatively impact the terms of such financing.

Any deterioration in our operating performance, including due to any worsening of prevailing economic conditions, fall in commodities and steel prices (whether due to the cyclical nature of the industry or otherwise) and/or financial, business or other factors, 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 us being unable to meet our obligations as they fall due. If such a situation were to occur, we may be required to further restructure our existing debt and/or to seek additional capital. There is no guarantee that we would be successful in restructuring our debt or in raising additional capital, 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 restructuring or new capital may be detrimental to holders of ADSs and shares. If significant economic slowdown were to continue, we could face a liquidity shortage and breach our restrictive covenants, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Inflation could increase our costs and decrease operating margins.

In 2011, the inflation rate in Russia was 6.1% and averaged 9.9% over the 2007-2011 period, according to the Russian Federal State Statistics Service (**Rosstat**). As we tend to experience inflation-driven increases in certain of our ruble-denominated costs, including salaries, rents and fuel and energy costs, which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise, assuming the ruble-to-dollar exchange rate remains constant. See Changes in the exchange rate of the ruble against the U.S. dollar may

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materially adversely affect our results of operations. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products sufficiently to preserve operating margins. Accordingly, inflation in Russia could increase our costs and have the effect of decreasing operating margins.

Any material change in our commercial dealings with, non-repayment of a loan by, or loss of accounts receivable from or prepayments to, certain related parties could have a material adverse effect on our business, results of operations and financial condition.

From late 2009 to present, we have been working closely with the related metallurgical plants. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with related metallurgical plants and Transactions with Metallurg-Trust . We work on a commercial basis with these companies, supplying raw materials to them and purchasing their products pursuant to short-term supply and purchase contracts. Revenues from sales to these companies amounted to $842.0 million and $640.0 million in the years ended December 31, 2011 and 2010, respectively. Purchases from these companies amounted to $1,557.2 million and $1,228.5 million in the years ended December 31, 2011 and 2010, respectively. Revenues from re-sales of products purchased from these companies to third parties amounted to $1,293.5 million and $1,051.1 million in the years ended December 31, 2011 and 2010, 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, 2011 and 2010, these revenues represented 29.8% and 30.3%, respectively, of the group s total steel segment revenues. As of December 31, 2011, trade accounts receivable and other accounts receivable from these companies totaled $269.4 million, with credit terms varying from 30 to 180 days. In addition, as of December 31, 2011, prepayments to these companies totaled $20.6 million.

In November 2011, the Mechel Entities and the Estar Group entered into the Estar Loan Agreement pursuant to which $944.5 million of debt, mostly consisting of accounts receivable owed to us by the Estar Group, was restructured. This restructuring was approved by our lenders as part of the waivers received in April 2012. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Transactions with related metallurgical plants and Transactions with Metallurg-Trust and note 9 to the consolidated financial statements. The restructured obligations of the related metallurgical plants are 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. If the related metallurgical plants do not comply with their obligations under the new arrangements, the bank may foreclose on the cash collateral provided by Mechel Entities and we will be entitled to enforce the pledge and thereby take control of the pledged assets, subject to approval from the FAS. See Item 3. Key Information Recent Developments Non-compliance with restrictive covenants and related waivers and amendment agreements with our lenders. However, the value of these assets may be substantially lower than the value of the cash collateral. Therefore, we could face a loss of a significant portion of the value of the cash collateral provided to the bank.

We also have a large additional trading exposure to related metallurgical plants and Metallurg-Trust OOO (**Metallurg-Trust**), a trading company mostly involved in supplying raw materials and semi-finished products to the Russian related metallurgical plants and reselling products produced by these plants. This additional trading exposure amounted to $290.0 million as of December 31, 2011. We closely monitor our balances with these companies, including our trade accounts payable to them. We are considering taking control over the related metallurgical plants, including through aquisition, as well as aquisition of Metallurg-Trust, for which the lenders consents have been obtained. No provisions were created against the accounts receivable from these companies because we consider the full amount of accounts receivable to be collectible. Nevertheless, given the recent liquidity issues faced by these companies and the dependency of their businesses on the general condition of the steel sector, we may fail to collect accounts receivable from and suffer loss of prepayments to these companies, and any material change in our commercial dealings with these companies could have a material adverse effect on our business, results of operations and financial condition.

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Increased levels of indebtedness and restrictions on equity financings may limit our access to capital, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We expect bank loans will continue to be a major source of financing in the near future. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital resources. Among other things, increased levels of indebtedness, particularly the restrictive financial covenants in our credit facilities, could potentially: (1) limit our ability to raise capital through debt financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) disadvantage our group relative to our competitors with superior financial resources; (4) lead to a loss of collateral pledged as security; (5) render us more vulnerable to general adverse economic and industry conditions; (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends. See Item 5. Operating and Financial Review and Prospects Restrictive Covenants. We will also follow the market situation with the view to raise funding in international debt and equity markets.

In addition, 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** , the common ADSs and the preferred ADSs together referred to as **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 FFMS. 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). Our common shares have a listing status A-1 on Closed Joint 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, or whether the enacted limits will override prior FFMS permissions for higher amounts. 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.

Any of the foregoing factors may limit our access to capital and harm our competitive position. If we cannot obtain adequate capital, we may not be able to fund our capital investment program and implement our business strategy.

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

A majority 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 would result in a decrease in our costs relative to our revenues. Conversely, appreciation in real terms of the ruble against the U.S. dollar, which was the prevailing trend in the 2002-2007 period, may materially adversely affect our results of operations if the prices we are able to charge for our products do not increase sufficiently to compensate for the increase in real terms in our ruble-denominated expenditures. In 2011, the ruble appreciated in real terms against the U.S. dollar by 8.8% as compared with 2010, according to the Central Bank of the Russian Federation.

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

Much 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, if the Russian authorities 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 with a monthly interval. Russian law also provides that, for a period of 30 days after 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, however, the court may not accept such a claim against subsidiaries existing in the form of an open joint-stock company if it concludes that the creditor had adequate security. 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.

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

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

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

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

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

Risks Relating to Our Business and Industry

We operate in cyclical industries, and any local or global downturn, whether or not primarily affecting the mining and/or steel industries, may have an adverse effect on our 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 could vary significantly in the future.

Our steel segment sells steel products, including semi-finished products, carbon and specialty long products, stainless flat products, wire products, forgings and stampings and others. 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 material costs, exchange rates, trade barriers and improvements in steel-making processes. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond our control.

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

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 the recent declines in production by steel and mining companies has impacted demand for power. Therefore, the market demand for the power produced by our power 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, reduced demand for power has not impacted power prices. However, as Russian regulated power prices are set in rubles, if power prices are not increased steadily they may decline on a real dollar basis when ruble devaluation and inflation are taken into account.

As a result of the 2008 global economic downturn the demand and prices for our products sharply declined. The recent wordwide slowdown has had, and the European sovereign debt crisis and the continuing uncertainty as to economic recovery may have, adverse consequences for our customers and our business.

Prices for our products, including coal, iron ore, metals and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the

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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 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 impact on our business, financial condition, results of operations and prospects.

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

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

Our competitiveness is based in part on our operations in Russia and other former Eastern Bloc countries having a lower cost of production than competitors in higher-cost locations. We have been facing a consistent upward trend in the past several years in production costs, particularly with respect to wages and transportation. For example, our rail transportation costs increased consistently during the last three years with rail tariff increases of 11.0% in 2009, 9.4% in 2010 and 8.0% in 2011. See Recent and potential developments in the Russian rail transportation sector 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.

Terrorist attacks and threats, escalation of military activity, as well as massive cyber attacks or incidents, 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, as well as massive cyber attacks or incidents, 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.

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 assembled and analyzed by our staff, which includes various engineers and geologists, and which is reviewed by independent mining

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engineers only periodically, approximately once in three years. The reserve estimates as to both quantity and quality are periodically updated to reflect production from the reserves and new drilling, engineering or other data received. There are numerous uncertainties inherent in estimating quantities and qualities of and 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, severance 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. In addition, we have not yet applied for all of the permits required, or constructed the mines necessary, to use all of our U.S. reserves. We may be unable to obtain such permits. Some of these permits are becoming increasingly difficult and expensive to obtain and the authorization process continues to lengthen.

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 debt 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.

There are a number of significant risks associated with the greenfield development of the Elga coal deposit. These risks 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 economic viability of the project is dependent upon the full use of the rail line; (3) the project requires significant capital expenditures to develop the required infrastructure and increases in planned capital and operating costs could make the project uneconomical because of the project s sensitivity to these costs; (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. See Item 4. Information on the Company Mining Segment Coal production Yakutugol mines. 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. The realization of any of these risks could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

Likewise, our strategy to increase our sales of coal, particularly high-grade coking coal, is substantially dependent on our ability to increase our exports of these products 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 16.5 million tonnes, which will need to expand substantially to meet our needs when Elga Open Pit reaches its planned annual saleable production of 18.6 million tonnes by 2021. According to Russian law, we will have to share excess capacity on our private rail line, if any, with third parties. Russian Railways plans to double the capacity of the Baikal-Amur Mainline by 2020 as well as increase capacity of the Komsomolsk-on-Amur Sovetskaya Gavan segment, which connects the Baikal-Amur Mainline to Port Vanino, to 35.9 million tonnes per annum. We are developing a terminal at Port Vanino, the key port we will use to export our Elga coal to Asia. However, we cannot guarantee these development projects by us and Russian Railways will proceed according to current plans. There is acute competition among Russian coal exporters for existing port capacity. In light of this shortage, Russian coal producers have endeavoured 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 domestic Russian 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. A 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.

Changes in our subsidiaries management and corporate governance might affect our integrated business model.

While we intend to continue to operate as an integrated business, if and when listing of shares takes place in respect of the subsidiary holding companies we have formed or intend to form to consolidate our mining, steel and ferroalloys assets, changes to the management structure of such subsidiary holding companies and/or the assets consolidated within them may be made in preparation for listing. In such cases, the subsidiary s directors and management would operate the business of such subsidiary, in accordance with applicable law, for the benefit of all shareholders, including minority shareholders, if any. In the past, we have considered to list some of our subsidiary holding companies and may do so in the future.

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Companies listed on stock exchanges have to comply with certain corporate governance requirements. We generally consider applying higher corporate governance standards and improving our management practices, including appointment of independent directors, at some of our subsidiaries. In particular, a number of directors on the board of directors of Mechel Mining which are independent under applicable Russian regulations has increased, and now they constitute the majority of the board. These and other changes in the future may result in decision-making by the directors and management of such subsidiaries, including with respect to payment of dividends, that may not be consistent with our current integrated business model. As our integrated business model is important to our strategy, changes in decision-making by our subsidiaries directors and management may materially adversely affect 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, and our business strategy will likely involve the acquisition of additional privatized companies. 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 was privatized in 1998 and Yakutugol was privatized in 2002. In general, we acquired shares in these companies from third parties after their respective privatizations, except for a 25%+1 share stake in Yakutugol, which was acquired pursuant to a state auction in 2005. We acquired the remaining stake in Yakutugol and a 68.86% stake in Elgaugol in 2007 from two state-owned companies in a tender process. After the acquisition, the Elga subsoil license was transferred from Elgaugol to Yakutugol in March 2008 and Elgaugol was liquidated in September 2009.

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

In addition, under Russian and Kazakh law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transaction rules and/or the terms of transaction approvals issued by government authorities, or failure to register the share transfer in the securities register. As a result, defects in earlier transactions 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 mining and other permits or fail to comply with the terms of our subsoil licenses and mining and other 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, particularly subsoil licenses for our Russian and Kazakh mining operations. 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 license holder being in compliance with the terms of the license. Our experience with license

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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. The termination or suspension of certain of our subsoil licenses constitutes an event of default under certain of our credit facilities and loans, and is likely to result in a cross-default in other of our credit facilities and loans. 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 2012 through 2033. Our most significant subsoil licenses expire between 2012 and 2024. See the tables setting forth expiry dates of our Russian subsoil licenses in Item 4. Information on the Company Mining Segment and reserves information. Accordingly, these factors may seriously impair our ability to operate our business and realize our reserves which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are currently in compliance with the material terms of our Russian subsoil licenses, except for the following. We failed to commence coal production at the Raspadsk license area (part of Olzherassky Open Pit) and the Sorokinsk license area (part of Krasnogorsky Open Pit) in 2009 due to unfavorable economic conditions, but expect to commence such production at the Raspadsk license area in the second quarter of 2013. In February 2012, we commenced production at the Sorokinsk license area. 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. 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. The Yerunakovsk-2 and Yerunakovsk-3 license areas are not counted for the purposes of our coal reserves.

In the course of inspections conducted in November 2011, Rospripodnadzor discovered certain violations of the terms of subsoil licenses held by Southern Kuzbass Coal Company. The Federal Agency for Subsoil Use requested that we rectify these violations, and in May 2012, we presented our report on measures we had implemented. Our report was accepted by the Commission for Termination of Subsoil Licenses of the Federal Agency for Subsoil Use (**Commission for Termination of Subsoil Licenses**) and the Commission for Termination of Subsoil Licenses is not currently considering the termination of subsoil licenses held by Southern Kuzbass Coal Company. During inspections conducted through March and April 2012, Rosprirodnadzor identified violations of the terms of subsoil licenses held by Yakutugol, and the Federal Agency for Subsoil Use requested that we rectify these violations. We expect to receive the detailed notification regarding required measures and deadlines in the near future and will use all possible efforts to comply with these requirements. See Item. 4 Information on the Company Regulatory Matters Subsoil Licensing in Russia Maintenance and termination of licenses. Failure to comply with the notification of the Federal Agency for Subsoil Use may lead to early termination of Yakutugol s licenses for the Moshchny as well as the Piatimetrovy and Promezhutochny II seams license areas of Neryungrinsky Open Pit. See Item. 8 Financial Information Litigation.

Our Bluestone operations in the United States are subject to risks relating to mining and other permits required under U.S. federal and state laws. See Risks Relating to Other Countries Where We Operate We must obtain, maintain and comply with numerous U.S. governmental permits and approvals for our operations in the United States, which can be costly and time consuming, and our failure to obtain, renew or comply with necessary permits and approvals could negatively impact our business. The federal agencies responsible for issuing the necessary permits required to conduct mining operations in the United States have increased their scrutiny of permit applications. This is discussed in greater detail below. This has resulted in the permitting

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process taking longer and becoming more costly in recent years. In addition, citations for violations of those permits have become more frequent and remediation costs associated with correcting such violations have increased substantially.

Certain of our Russian subsidiaries are required to either purchase or lease the land on which they operate.

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

The Land Code of the Russian Federation, as amended, which was enacted on October 25, 2001 (the **Land Code**), requires privatized Russian companies to either purchase or lease the land on which they operate by July 1, 2012. In accordance with the current legislation the repurchase price of land plots held under special title of perpetual use is set in the amount of 2.5% of the cadastral value of such land plots. We estimate that the repurchase cost of such land plots is $45.6 million.

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

In 2011, our Russian operations purchased approximately 6.1 billion kilowatt-hours (kWh) of electricity, representing 100% of their needs, at a total cost of $449.3 million, implying an average cost of 7.4 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. This could lead to higher electricity prices. According to information published by the Russian Federal Tariff Service (the **FTS**), the average increase in market prices and tariffs on the retail electricity market was 13-14% in 2011, and is expected to be in the range of 6.5-7.5% in 2012 and in the range of 9-11% in 2013. 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 Gazprom OAO (**Gazprom**). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the Russian government. These prices have been consistently rising over the last few years until 2009. In 2011, we purchased 2,131.0 million cubic meters of gas at a total cost of $235.3 million. Russian domestic natural gas prices are significantly below Western European levels, which presently helps to provide us with a cost advantage over our competitors, an advantage which is expected to diminish as Russian domestic gas prices approach Western European levels. In 2011, 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 $56.3 to $142.4 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased. In the past, disputes have occurred between Gazprom and Naftogaz of Ukraine NAK over the prices and payment methods for gas delivered by Gazprom to Ukraine. Such disputes may occur in future and may lead to interruptions in the supply of natural gas to our Ukrainian facilities and increase of cost of such supply.

After the 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 average annual rate of 8.2% in ruble terms in the 2007-2010 period. Moreover, labor costs in Russia are indexed to and adjusted for inflation. 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.

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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.

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

Railway transportation is our principal means of transporting raw materials and steel products to our facilities and to customers in Russia and abroad. The Russian rail system is controlled by Russian Railways. Russian Railways is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation, such as, including, terms related to the type of rolling stock to be used for transportation of certain types of cargo; estimated minimum tonnage for the purposes of determining the applicable tariff and others. 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. In addition, the establishment of the Russian Railways subsidiaries Pervaya Gruzovaya Kompaniya OAO (**First Freight Company**) and Vtoraya Gruzovaya Kompaniya OAO (**Second Freight Company**) and the transfer of 90% of the rolling stock to them, as part of the reform of the Russian rail transportation sector, have led to a significant increase of the costs of use of freight cars. In October 2011, Russian Railways sold 75% minus two of the shares of First Freight Company through a public auction to a private operator.

Our cargoes are currently transported in the railcars of either Russian Railways or third-party owners engaged for transportation, as well as in our own railcars. The most significant railcar owners are First Freight Company and Second Freight Company, which provide us with their railcars, mainly to transport coal products and iron ore concentrate. At present, only three companies, Russian Railways, First Freight Company and Second Freight Company, possess a sufficiently extensive railcar fleet to service our present and future requirements.

Our subsidiary Mecheltrans works with First Freight Company to arrange for transportation and forwarding of cargoes with the railcar fleet owned by First Freight Company. Our freight volume transported by First Freight Company s railcars amounted to 6.5 million tonnes in 2011, for which we paid $85.7 million. Mecheltrans has commenced working with Second Freight Company since February 2011. Our freight volume transported by Second Freight Company s railcars in 2011 amounted to 1.7 million tonnes, for which we paid $24.8 million.

In 2011, tariffs were indexed once, which resulted in an 8.0% tariff increase. With effect from January 1, 2012, all tariffs have been increased by an additional 6.0%. If rail freight prices continue to increase, or if there is a disruption in the transportation of our materials and products due to a shortage of available working rolling stock, it could materially adversely affect our business, financial condition, results of operations and prospects.

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

We face numerous protective tariffs, duties and quotas which reduce our competitiveness in, and limit our access to, particular markets. Several key steel importing countries currently have import restrictions in place on steel products or intend to introduce them in the future. The E.U. has a quota system in place with respect to Russian steel imports, which affected our exports to ten countries in Central and Eastern Europe and the Baltic states (Estonia, Lithuania and Latvia) that joined the E.U. in 2004 as well as to Romania and Bulgaria, which joined the E.U. in 2007. Our sales to third parties in the E.U. from our Russian steel facilities constituted 1.8% of our total steel segment revenues and 6.6% of our steel segment export revenues in 2011. The export of our steel into the E.U. is an important part of our growth strategy.

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

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According to publicly available information, in November 2011, following Russia s long-term negotiations to join the World Trade Organization **(the WTO)**, Russia and the WTO signed the protocol of accession of Russia to the WTO. The accession will be completed following the ratification of the accession by the State Duma of the Russian Federation, which should be passed, if at all, by mid-2012. Upon accession of Russia to the WTO, which is expected to occur by August 2012, the agreement between Russia and the E.U. providing for the application of import restrictions to Russian steel products **(the E.U.-Russia Steel Agreement)** should terminate, and Russian steel products supplies to the E.U. market should enjoy the free trade regime.

Our ferroalloys business is also subject to export restrictions. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the E.U. of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. We did not supply ferrosilicon to third parties in the E.U. in 2011. We supplied ferrosilicon to our Romanian steel plants, and this accounted for 2.2% of our total ferrosilicon sales (including intra-group sales) in 2011.

See Item 4. Information on the Company Steel Segment Trade restrictions and Item 4. Information on the Company Ferroalloys Segment Trade restrictions.

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

Russia has in place import tariffs with respect to certain imported steel products. These tariffs generally amount to 5-15% of value. Almost all of our sales of steel products in Russia were protected by these import tariffs in 2010. 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%. 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.

On December 26, 2010, Russia imposed an antidumping duty on corrosion-resistant steel originating in China (including Taiwan), South Korea, Brazil and South Africa at the rate ranging from 4.8% to 62.8% per tonne. This duty is imposed until December 26, 2013 and will benefit our sales on the Russian market while it is in force; elimination of this duty may have negative effect on our sales. Since June 22, 2011, this antidumping duty is valid throughout the Customs Union.

Russia s expected membership in the WTO may result in reduction or elimination of Russia s import tariffs and duties, which could negatively affect our business, financial condition, results of operations and prospects. In particular, under the terms of Russia s accession to the WTO, import duties on most types of steel products upon accession should be 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 E.U. 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 Chemical 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 E.U. 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 E.U. in an amount over 1,000 tonnes per year, and which are subject to REACH registration. Under REACH, the next registration for substances in the 100 to 1,000 tonnes per year tonnage band is to be completed prior to June 1, 2013. We are in compliance with current REACH requirements and we will have to maintain certain resources to ensure compliance with further developing REACH requirements.

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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 taking place until 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) discharges 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 the V.I. Lenina Underground (which led to suspension of operation for 17 calendar days) and on July 29, 2008 there was a methane flash (which led to suspension of operation for 67 calendar days). Both accidents involved multiple casualties, and the first accident resulted in five fatalities. In August 2010, we suspended operations at the Olzherasskaya-Novaya Underground for more than one year due to a spontaneous ignition of coal. There were no casualties involved. We resumed mining operations at the Olzherasskaya-Novaya Underground after extinguishing the fire and completing recovery works. Also, during 2011 and 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 the Sibirginskaya Underground, V.I. Lenina Underground and Olzherasskaya-Novaya Underground. There were no casualties involved in any of these occasions. We have been and are still implementing measures to cure the reasons 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.

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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. For example, in February 2012, production at our steel facilities in Romania was suspended for a period of 10 days in total due to raw materials supply problems caused by severe snowfalls and abnormally low temperatures. 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. 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, clean-up 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 operation and prospects.

Our operations and properties are subject to environmental, worker protection and industrial safety and other laws and regulations in the jurisdictions in which we operate. For instance, our operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulfur oxide, sulfuric acid, nitrogen ammonium, sulfates, nitrites and phenicols. Some of our operations result in the creation of hazardous sludges, including sludges containing base elements such as chromium, copper, nickel, mercury and zinc. The creation, storage and disposal of such hazardous waste is subject to environmental regulations, including some requiring the clean-up of contamination and reclamation, such as requirements for cleaning up highly hazardous waste oil and iron slag. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental 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 E.U. or the United States. However, recent Russian government initiatives indicate that Russia will introduce new water, air and soil quality standards and increase its monitoring and fines for non-compliance with environmental rules, and environmental concerns are increasingly being voiced at the local level. In addition, we are currently assessing whether our Romanian and Bulgarian operations will face higher environmental compliance costs due to the integration of these countries into the E.U. See note 24(b) to our consolidated financial statements.

Based on the current regulatory environment in Russia and elsewhere where we conduct our operations, as of December 31, 2011, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of $43.9 million for asset retirement obligations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

Also, in the course, or as a result, of an environmental investigation by Russian governmental authorities, courts can issue decisions requiring part or all of the production at a facility that has violated environmental standards to 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 March 2011, Rosprirodnadzor claimed 287 million rubles from Chelyabinsk Metallurgical Plant as compensation for damage caused by discharging waste water into the river Miass. This

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claim was settled by way of amicable agreement approved by the arbitrazh court, pursuant to which Chelyabinsk Metallurgical Plant has paid the compensation in the amount of 130.2 million rubles. 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.

The assets and operations of Bluestone based in West Virginia are subject to U.S. environmental and other regulatory risks. See Risks Relating to Other Countries Where We Operate. In particular, in early 2011, our Bluestone operations suspended work on the construction of a coal washing facility because certain limitations contained in the environmental permissions issued with respect to mining activities restricted increases of mining volumes which led to the underutilization of existing washing facilities.

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

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 and ferroalloys segments. A major by-product of burning coal is carbon dioxide (CO_2), which is considered to be a greenhouse gas 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 Protocol, including the Russian Federation. 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. Since October 2009, Russia has established a legal procedure for implementing trading mechanisms provided under the Kyoto Protocol. The E.U. has already established greenhouse gas regulations and many other countries, including the United States, 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 E.U. Our operations in Bulgaria, Lithuania and Romania are currently subject to the EU ETS, as are our E.U. based customers.

In the United States, various federal, regional and state initiatives to regulate greenhouse gas emissions have been implemented or are under consideration, and, it appears likely that additional national, regional and state regulation of actual greenhouse gas emissions will be enacted in the future. For example, legislation is under consideration in the U.S. Congress that would create a cap-and-trade system for greenhouse gas emissions. Furthermore, the U.S. Environmental Protection Agency (**EPA**) has taken the first steps towards implementing a comprehensive greenhouse gas policy that may adversely affect the business of our Bluestone companies.

The Kyoto Protocol, the EU ETS and current and future regulation of greenhouse gas emissions in the United States 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, income 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

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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 . Government 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.

We may fail to identify suitable targets, acquire them on acceptable terms, identify all potential liabilities associated with them or successfully integrate them into our group.

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

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

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

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

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We have acquired and established businesses in countries that represent new operating environments for us and which are located at a great distance from our headquarters in Russia. These businesses conduct operations in accordance with local customs and laws. For example, through our acquisition of the Bluestone companies in May 2009, and our establishment of Mechel Bluestone Inc., a Delaware corporation that holds the Bluestone companies, we now have significant operations, assets and employees in the United States which are subject to U.S. federal and state laws and regulations.

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

The concentration of our shares with our controlling shareholder will limit your ability to influence corporate matters.

Our Chairman, Igor Zyuzin, directly and indirectly owns approximately 67.42% of our common shares. 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. We have also engaged and will likely continue to engage in transactions with related parties, including our controlling shareholder, that 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 or transactions that may expose us to risks outside the ordinary course of business. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. Thus, our controlling shareholder can take actions that you may not view as beneficial, and as a result, the value of the shares and ADSs could be materially adversely affected.

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

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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, 2012, seven 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:

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

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 as controlling more than 50% of the market for the trading of electricity in the cities of Mezhdurechensk, Myski and Novokuznetsk;

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 100% of the market for cargo transportation services on the company s rail siding in the Lenin district of Moscow region from the Obmennaya station to the Zavodskaya station.

When our companies are included in the register of entities with a market share exceeding 35% in the relevant market or with a dominant position 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 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.

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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.

On October 10, 2008, the FAS issued two new directives addressed to Mechel Mining Management with respect to Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position in the Russian coking coal market, ordering Mechel Mining Management to fulfill the following requirements:

- not to reduce or terminate production of coking coal concentrate without prior approval of the FAS, unless there is no demand for such products;
- to perform all contracts related to coking coal concentrate production or other products (works or services) in relation to which these companies are or may be included in the register of entities with a market share exceeding 35% in the relevant market; and
- to provide equal supply terms to all customers without discriminating against companies outside of Mechel Mining Management group and to avoid terms of supply which would compensate Mechel Mining Management group for unjustified expenses or yield Mechel Mining Management group any profit that is significantly higher than it could be in a competitive market.

In 2009, we received five directives from the FAS, addressed to Mechel-Steel Management, Beloretsk Metallurgical Plant, Izhstal, Chelyabinsk Metallurgical Plant, Vyartsilya Metal Products Plant and Urals Stampings Plant. Furthermore, in connection with the consolidation of our ferroalloys assets under our subsidiary Oriel Resources, in October 2008 the FAS issued a directive addressed to Oriel Resources, and in November 2008 the FAS issued an additional directive addressed to Mechel and Bratsk Ferroalloy Plant. The requirements under all seven of these directives are substantially similar to those described above in connection with the directives dated October 10, 2008, except: (1) that they relate to our production and sales of ferrosilicon, stampings, wire products and certain other steel products; and that (2) the directive addressed to Mechel and Bratsk Ferroalloy Plant also requires them to satisfy ferrosilicon demand on the Russian market, where they hold a dominant position, subject to available production capacity, and to maintain production and equipment required for the ferrosilicon production and supply.

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: (1) 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; (2) submit to the FAS during the next 5 years economic justifications of each coking coal concentrate price increase of more than 5% as compared to the prices of previous quarter; (3) reduce sale prices by 15% for the period from September 2008 until December 2008; and (4) execute long-term supply contracts of at least three years duration with effect from 2009. 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. See Item 8. Financial Information Litigation Antimonopoly.

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

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

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

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

Under Russian law, companies and individuals, as well as affiliated entities operating within one wholesale market pricing zone, are prohibited from combining activities relating to electricity distribution and/or dispatching with electricity generation and/or sale, in particular, through simultaneously owning assets which are directly used for electricity distribution and/or dispatching and assets which are directly used for electricity generation and/or sale. Amendments to the law adopted in December 2011 introduced a new enforcement mechanism with respect to affiliated companies which do not comply with the law. The amendments allow the relevant governmental authorities to force the sale of first, electricity generation and/or sale assets and second, 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, Southern Urals Nickel 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 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 the regulation is new, there is no official guidance or court practice clarifying this matter and 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

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continue to carry out, transactions among our companies and affiliates, as well as transactions with other parties which may be considered to be interested party transactions under Russian law, requiring intra-group approval by disinterested directors, disinterested independent directors or disinterested shareholders depending on the nature of the transaction and the parties involved. 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 transactions and other 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.

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

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

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

As of December 31, 2011, approximately 62% 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 have been recently affected by interruptions due to strikes, lockouts or delays in renegotiations of collective bargaining agreements. Our businesses could also be affected by similar events if our relationships with our labor force and trade unions worsen in the future. Although industry agreements with trade unions for coal and ore mining and smelting industries have been signed in recent years, and we have renegotiated most of our collective bargaining agreements, if in the future we are unable to prolong collective bargaining agreements on similar conditions 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.

Approximately half of the Bluestone companies workforce is represented by the United Mine Workers of America (**UMWA**) labor union and is covered by the Bituminous Coal Wage Agreement of 2011 which expires at the end of 2016. We are currently in negotiations with the UMWA with respect to one of our operations in West Virginia, the employees of which elected in November 2011 to be also represented by the UMWA. Though we believe the Bluestone companies have a good relationship with the UMWA, there are no assurances that these relations will not deteriorate in the future. Our U.S. employees have the right at any time

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under the U.S. National Labor Relations Act to form or affiliate with a union and the current presidential administration in the United States has indicated that it will support legislation that may make it easier for employees to unionize. Any further unionization of employees could adversely affect the stability of our U.S. production and negatively impact the financial performance of our U.S. operations. Additionally, due to the increased risk of strikes and other work-related stoppages that may be associated with union operations in the coal industry, our competitors who operate without union labor may have a competitive advantage in areas where they compete with our unionized operations.

Bluestone companies have liabilities with respect to post-retirement benefits for our U.S. employees, which could be more burdensome if certain factors beyond our control are changed or corrected.

The Bluestone companies we acquired have long-term liabilities with respect to pension obligations and post-retirement welfare benefit plans. The Bluestone companies contribute to multi-employer defined benefit pension plans sponsored by the UMWA. In the event of our partial or complete withdrawal from any multi-employer plan which is underfunded, we would be liable for a proportionate share of such plan s unfunded vested benefits. In the event that any other contributing employer withdraws from any plan which is underfunded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then we, along with the other remaining contributing employers, would be liable for our proportionate share of such plan s unfunded vested benefits. As of 30 June 2011, the UMWA pension plan s unfunded liability was $4.3 billion. Furthermore, in September 2011, the UMWA Funds reported to the United States Department of the Treasury, as required under the Pension Protection Act of 2006, that the UMWA pension plan is in Seriously Endangered Status for the plan year beginning July 1, 2011 due to funded percentage below 80%. When a pension plan is certified to be in seriously endangered status, federal law requires the plan to adopt a funding improvement plan aimed at restoring the financial health of the plan. The funding improvement plan may include increased contributions to the plan and/or modifications to certain future benefit accruals. Now, it is up to the Bituminous Coal Operators Association (BCOA) and the UMWA to negotiate such an improvement plan. As the signatory companies will be bound to whatever the BCOA and the UMWA negotiate as to an improvement plan, Bluestone s signatory companies may see a required higher level of contributions in the future.

The Bluestone companies post-retirement medical obligations have been estimated based on actuarial assumptions, including actuarial estimates, assumed discount rates, estimates of life expectancy, and changes in healthcare costs. If our assumptions relating to these benefits change in the future or are incorrect, we may be required to record additional expenses. In addition, future regulatory and accounting changes relating to these benefits could result in increased obligations or additional costs, which could also have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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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 Russia, Ukraine, Kazakhstan and other emerging countries 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.

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

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 can not 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.

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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 18 to our consolidated financial statements.

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

If at any time the depositary believes that the shares deposited with it against 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.

In addition, given that the depositary is already the record owner of approximately 35% of our common shares under our common ADS and GDS programs and of approximately 18.17% of our preferred shares under our preferred ADS program, and if the preferred shares become entitled to the same voting rights as the common shares, then the following requirements may become applicable to the depositary:

Under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of the common shares and voting preferred shares of an open stock company such as Mechel (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for all other shares of the same class and for securities convertible into such shares (mandatory offer). From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or 50% or 75%, as the case may be) of the company s common shares and voting preferred shares (regardless of the size of their actual holdings). See Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Change in Control Anti-takeover protection. Under Russian law, the depositary may be considered the owner of the shares underlying the ADSs, and as such may be subject to the mandatory public tender offer rules. See

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

Under Russian antimonopoly legislation, certain transactions resulting in a shareholder (or a group of persons, as defined by Russian law) holding directly more than 25%, 50% or 75% of the voting capital stock of a company (such as Mechel) or the right to control the company indirectly must be approved in advance by the FAS. See Item 10. Additional Information Charter and Certain Requirements of Russian Legislation Change in Control Approval of the Russian Federal Antimonopoly Service. The depositary thus may need such prior approval in the future. The depositary has received general interpretive guidance from the FAS that it need not obtain the approval referred to above in connection with depositary receipt programs such as our ADS programs. If, however, the FAS were to rescind or disregard its above mentioned interpretation, the ADS programs would be subject to a de facto limit of 24.99% of Mechel s outstanding voting shares, unless the depositary could obtain FAS approval for a higher percentage.

Under the Federal Law of the Russian Federation On the Procedure for Foreign Investment in Companies With Strategic Impact on the National Defense and Security of the Russian Federation

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(the **Strategic Industries Law**) dated April 29, 2008, as amended, the acquisition by a foreign investor, or a group of entities which includes a foreign investor, of (1) 50% or more of the voting capital stock of a company which is considered to be a strategic enterprise as defined by the Strategic Industries Law (a **Strategic Company**) or (2) 25% or more of the voting capital stock of a Strategic Company which is engaged in the geological study, exploration or production of natural resources on plots that are deemed by the Russian government to be subsoil plots of federal importance (a **Strategic Subsoil Company**), must be previously approved by the governmental commission. Some of our subsidiaries are considered Strategic Companies or Strategic Subsoil Companies. See Item 3. Key Information Risk Factors Legal risks and uncertainties Expansion of limitations on foreign investment in strategic sectors could affect our ability to attract and/or retain foreign investments. If the total number of our voting shares held by the depositary (together with any entities within its group) reaches the thresholds described above, the depositary may be required to obtain approval of the governmental commission. The depositary has received general interpretive guidance from the FAS, which is competent to issue such guidance, that it does not need to obtain the approval referred to above in connection with depositary receipt programs such as our ADS programs. If, however, the FAS were to rescind or disregard its above mentioned interpretation, the ADS programs would be subject to a de facto limit on the number of shares, unless the depositary could obtain FAS approval for a higher percentage. See Item 4. Information on the Company Regulatory Matters The Strategic Industries Law.

An inability to deposit shares into the ADS programs in exchange for ADSs due to the aforementioned limits or other similar regulations or circumstances may affect the liquidity and the value of your investment in the shares and ADSs.

The Federal law On the Central Depositary and the related Federal law introducing amendments to various Russian laws (including securities market laws) (the **Central Depositary Law**), which were signed into law in December 2011, introduce important changes to the existing Russian securities regulation. In particular, shares of Russian companies which are circulating outside of Russia in the form of depositary receipts will have to be held by the depositary at a special, newly introduced, depo account for depositary programmes opened by the depositary with a Russian custodian which has a nominee account at the central depositary. The depositary will be obligated to provide certain information regarding persons exercising rights in respect of shares underlying the depositary receipts to the issuer of the relevant shares. Failure to provide the required information can prevent the depositary from voting and receiving dividends in respect of such shares. The new regime with respect to depositary receipts should come into force as of January 1, 2013. At the moment it is not clear how the relevant provisions of the new regime will be implemented and how it will apply to depositary receipts already issued. However, it may impact the rights of ADS holders and, among others, may prevent the exercise of their rights under ADS.

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

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

A court interpreting Russian law may treat the depositary as the beneficial owner of the shares underlying the ADSs. This is different from the way other jurisdictions treat ADSs. In the United States, although shares may be held in the depositary s name or to its order, making it a legal owner of the shares, the ADS holders are the beneficial, or real, owners. In U.S. courts, an action against the depositary unrelated to its capacity as depositary under the ADS program would not result in the beneficial owners losing their rights with regard to the underlying shares. Russian law does not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the depositary in whose name the underlying shares are held, but not the rights

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of ADS holders to the underlying shares. Thus, in proceedings brought against a depositary, whether or not related to shares underlying ADSs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest.

Voting rights with respect to the shares represented by our ADSs are limited by the terms of the 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 via publication of a notice in the Russian official newspaper *Rossiyskaya Gazeta*. 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 such any 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 the 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.

Furthermore, the new Central Depositary Law and future implementing legislation may further restrict voting rights of ADS holders in certain circumstances. See Risks Relating to Our Shares and the Trading Market The depositary may be required to take certain actions due to Russian law requirements which could adversely impact the liquidity and value of the shares and ADSs.

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.

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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 may potentially be reduced to 5% or 10% 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. However, Russian tax rules on the application of double tax treaty benefits to individuals are unclear and there is no certainty that such benefits can be obtained. The Russian tax rules applicable to ADS holders are characterized by significant uncertainties. In a number of clarifications, the Ministry of Finance of the Russian Federation expressed a view that ADS holders (rather than the depositary) should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to the taxation of dividend income from the underlying shares, provided that the tax residencies of the ADS holders are duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities and courts will ultimately treat the ADS holders in this regard. Thus, we may be obliged to withhold tax at standard 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 income 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 profits tax or withholding income tax if immovable property 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 tax either at the source in Russia or based on an annual tax return, which they may be required to submit with the Russian tax authorities.

Holders of 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 all of our executive officers reside outside the United States, principally in Russia. A substantial portion of our assets and the assets of most of our directors and executive officers are located outside the United States. As a result, holders of our ADSs may be limited in their ability to effect service of process within the United States upon us or our directors and

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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, 55,502,766 preferred shares are held by our wholly-owned subsidiary Skyblock Limited, the remaining preferred shares are held by James C. Justice II, James C. Justice III, James C. Justice Companies Inc. and Jillean L. Justice (collectively, the **Justice persons**) and the public. The Justice persons acquired their preferred shares in connection with the sale of their Bluestone coking coal business located in Beckley, West Virginia to us in May 2009. During 2010 and 2011 the Justice persons disposed some of the preferred shares they held. As of April 20, 2011, immediately after the offering of preferred shares by Justice persons in 2011, they owned 26,044,572 preferred shares. Justice persons may dispose of all or part of the remaining preferred shares they hold through one or more offerings or broker trades in the future. It is also possible that we may decide to offer additional preferred shares and preferred ADSs in the future, including the 55,502,766 preferred shares held by our wholly-owned subsidiary 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.

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, steel and ferroalloys 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;

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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, Ukraine, Kazakhstan, Bulgaria, Romania and other E.U. countries and the United States;

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 and 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.

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 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. 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.

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, a relatively stable Russian ruble, strong domestic demand, rising real wages and a 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 gross domestic product s growth rate, ruble depreciation and a decline in domestic demand. The Russian government has taken 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 by

7.8% in 2009, the Russian gross domestic product grew by 4.3% in 2010 and by 4.3% in 2011, according to Rosstat. However, the full impact of global economic crisis on

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Russia is not yet clear, and it is possible that the Russian economy could continue to be impacted in the near future. 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 could place severe liquidity constraints on our business.

We and our Russian subsidiaries hold a substantial majority of ruble and foreign currency cash in Russian banks, including Russian banking subsidiaries of foreign banks, and a substantial portion of our loans are from Russian banks, including state-owned banks such as Sberbank, VTB Bank and Gazprombank. 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 global financial crisis on the Russian banking system has been contained by the actions by the CBR, the risk of further instability remains high. With few exceptions (notably the state owned banks), the Russian banking system suffers from 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 recent global financial crisis, Russian banks were faced with a number of problems simultaneously, such as 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).

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. The continuation or worsening of the banking crisis or the bankruptcy or insolvency of the banks in which we hold our funds could prevent us from accessing our funds or affect our ability to complete banking transactions in Russia, or may result in the loss of our deposits altogether, which 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, European sovereign debt crisis 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 or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting the Russian economy. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Russia is also one of the world s largest producers and exporters of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by any of its principal export markets.

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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 prolonged downturn affecting the Russian or global economy. In addition to reduced 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 2(d) to our 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, recent protests against falsification of results of 2011 and 2012 parliamentary and presidential elections and the government in general, as well as to demands for autonomy from particular regional and ethnic groups.

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

Corruption and negative publicity could 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. Additionally, there are reports of the Russian media publishing disparaging articles in return for payment. If we, our managers or counterparties are accused of involvement in government corruption, the resulting negative publicity could disrupt our ability to conduct our business and impair our relationships with customers, suppliers 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.

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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. In 2011, Rosstat estimated Russia s population at 143 million, a decline of 5.5 million from 1992. An increase in migration and a reduction in the natural decline of the population recently resulted in a slowdown in the population decrease followed even by some temporary population growth. However, the birth rate remains relatively low, which together with the aging and high mortality of the population are the main problems of Russia s demographic development. Russia s working age population is estimated to decline by 10-20 million by 2025. If the present trend continues without a migration inflow to Russia, the decreasing working population will become a barrier to economic growth around 2015, according to the National Human Development Report for the Russian Federation produced by the United Nations Development Program in 2008. 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.

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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 law, 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;
- 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.

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 voluntarily 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

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applicable damages, and governmental authorities may seek involuntary liquidation of the company. Many Russian companies have negative net assets due to very low historical asset values reflected on their balance sheets prepared in accordance with Russian accounting standards; however, their solvency, i.e., their ability to pay debts as they become due, is not otherwise adversely affected by such negative net assets. Currently, we have following subsidiaries with negative net assets: Mechel-Garant, IzhevskSotsSfera, UralSotsSfera, CenterSotsSfera, Mechel Steel, Port Kambarka, VtorResource-Yuzhny, Thermal Grid Company of Southern Kuzbass, Tikhvin Ferroalloy Plant, Management Metallurgical Equipment Repair, Mechel Mining Management, Shakhtspetsstroy, Sky-Extra, Mechel-Remservice, SotsResource, Nytva-Energo 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.

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

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

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

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

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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.

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

The Civil Code of the Russian Federation, as amended (the **Civil Code**), and the Joint-Stock Companies Law generally provide that shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one 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; and
- the amendment of the company s charter or approval of a new version of the company s charter that limits shareholder rights.

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.

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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 are maintained by the companies themselves or, if a company has more than 50 shareholders, 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 both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Furthermore, the depositary, under the terms of the 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 profits tax;
- a value-added tax (**VAT**);
- a minerals 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 profits tax, VAT and property tax with new chapters of the Russian Tax Code.

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. 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 an audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to 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

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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.

In May 2009, the Russian President proposed legislative changes in his Budget Message regarding the Budget Policy for 2010-2012 to reform the anti-avoidance mechanism of double tax treaties. A law envisaging the introduction of the concept of an actual recipient of income to the Tax Code was drafted in late 2009. Although the draft law neither uses the term beneficial owner nor defines the term actual recipient of income (which is used in Russian official versions of all double taxation treaties), it is likely that the intent of the proposed amendments is to introduce a concept of beneficial ownership in the domestic tax legislation, and to combat the abuse of double taxation treaties where the beneficiaries of income reside in jurisdictions that do not have double taxation treaties with Russia. Furthermore, in May 2010, the Russian government also proposed in its Main Directions of Russian Tax Policy for 2011-2013 legislative changes to the anti-avoidance mechanism with respect to double tax treaties, as well as creating tax incentives to move organizations from offshore to Russia. The above-mentioned draft law, if enacted in its current form, would add to the existing uncertainty and instability in the application of double tax treaties in Russia. It is currently uncertain if and when the draft law may be introduced. In fact, there has been no progress with this legislation since late 2009. It is also unclear how, if adopted, it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including us.

Moreover, 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 Combined Taxpayer Group. The main provisions of the law came into force on January 1, 2012. The law provides for formation of a combined taxpayer group 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 combined taxpayer group. Currently, we do not plan on forming a combined taxpayer group for our companies in 2012. Therefore, as in the past, each of our Russian subsidiaries pays its own Russian taxes and does not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 0% or 9% (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. Dividends from foreign companies to Russian companies are subject to a tax of 9%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or 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 Arbitration 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

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

Vaguely drafted Russian transfer pricing rules expose 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 affiliated entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to different interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities have challenged in the past and may continue to challenge our prices and make adjustments which could result in significant additional liabilities. For example, as a result of a tax audit in 2009 for the period from 2005 to 2007, Korshunov Mining Plant was subject to an additional tax assessment related to transfer pricing and related fines and penalties in the total amount of 73.3 million rubles for the year 2005. Korshunov Mining Plant contested these claims up to the Supreme Arbitrazh Court but the court rejected our appeals. In June 2011, the tax authorities completed their audit for the period from 2008 to 2009. They found similar violations and issued an additional tax assessment and related fines and penalties in the total amount of 120.5 million rubles. Korshunov Mining Plant is currently contesting these tax assessments. See Item 8. Financial Information Litigation Tax. Under Russian law, tax authorities may audit a company for violations of transfer pricing rules over the last three calendar years preceding the year of the audit. See also Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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 in a given calendar year, beginning 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 existing 20% safe harbor for price deviations. The rules also introduce specific documentation requirements for proving market prices. 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 transfer pricing adjustments and we are unable to successfully challenge them in court, 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 carries out exploration and production on land plots with nickel and cobalt ore deposits which are included in the official list of subsoil plots of federal importance first published on March 5, 2009 in the Russian official newspaper *Rossiyskaya Gazeta* and as amended on August 13, 2010 (the **Strategic Subsoil List**), it qualifies as a Strategic Company and is subject to special regulation. Our subsidiaries Port Posiet, Port Kambarka and Port Temryuk are included in the register of natural monopolies, and therefore are also Strategic Companies.

According to the Strategic Industries Law, the activity of a business entity which is deemed to occupy a dominant position in the production and sale of metals and alloys with special features which are used in

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production of weapons and military equipment is also deemed to be strategic activity. Our subsidiary Urals Stampings Plant has been found by the FAS to hold a dominant position in the market of carbonic, alloyed and heat-resistant alloyed stampings. Such products are of a type generally used in the production of weapons and military equipment. Therefore, Urals Stampings Plant may also qualify as a Strategic Company. Furthermore, entities producing and distributing industrial explosives are also deemed to be Strategic Companies. Thus, our subsidiaries Yakutugol, Vzryvprom and Korshunov Mining Plant also qualify as Strategic Companies, as they both hold licenses to produce industrial explosives and licenses to distribute 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 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 Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and, possibly, Urals Stampings Plant, which, according to the Strategic Industries Law, is deemed to transfer control, as described in Item 4. Information on the Company Regulatory Matters The Strategic Industries Law, will be subject to prior approval from the state authorities. Likewise, a sale to a foreign investor or its group of entities of a stake in Mechel which provides control (as defined in the Strategic Industries Law) over Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom, Korshunov Mining Plant and, potentially, Urals Stampings Plant, will also be subject to prior approval in accordance with the Strategic Industries Law.

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

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

Risks Relating to Other Countries Where We Operate

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

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

New regulatory requirements for obtaining certain permits under Section 404 of the Clean Water Act may result in delays, additional costs or the inability to proceed with certain U.S. mining operations.

For some of our proposed U.S. mining operations, we will need to obtain certain permits issued by the United States Army Corps of Engineers (**Corps**) under the Clean Water Act § 404 (**404 Permits**). Such

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permits are required in order to undertake construction of valley fills, coal refuse disposal areas, and other activities associated with those operations that would have the effect of filling (covering) ephemeral, intermittent or perennial streams. Since approximately 2003, the Corps issuance of 404 Permits for coal-related fill projects (especially large-scale surface mines) has been the subject of continual litigation and other challenges by environmental groups, resulting in several court opinions that had the effect of substantially restricting issuance of such permits and curtailing coal production.

On June 11, 2009, the EPA, Corps, and other U.S. agencies with control over this permitting program issued a Memorandum of Understanding (**MOU**) that identified several steps that will be taken as to pending and future 404 permit applications, in order to implement an Enhanced Coordinated Review Process for the purpose of significantly reducing the harmful environmental consequences of Appalachian surface coal mining operations. The EPA followed up on the MOU by releasing its Financial Guidance on Improving EPA Review of Appalachian Surface Coal Mining Operations under the Clean Water Act, National Environmental Policy Act, and the Environmental Executive Justice Order on July 21, 2011. EPA s final guidance replaced interim guidance released on April 1, 2010. Since release of the MOU and the other guidance documents, few 404 Permits have been issued, and each of those permits that were issued included modifications to the proposed mining plan and additional environmental monitoring provisions that require adaptive management and revisions to mine plans should certain indicia of harm to the aquatic system be observed. Companies with 404 Permit applications that have been pending for a year or longer are currently required to engage in meetings with Corps and EPA staff before those applications are submitted for further processing, and the timeline for issuance of such permits is uncertain. It is also widely expected that some of those permit applications will be denied, or that EPA will exercise its Clean Water Act veto authority over some 404 Permits that are issued by the Corps. For example, in January 2011, the EPA for the first time exercised its veto power by rescinding a federal Clean Water Act permit held by another coal mining company for a surface mine in Appalachia.

In addition, partly in response to regulatory turmoil created by EPA s involvement in the U.S. Clean Water Act 404 and NPDES permitting programs, in August 2010, the West Virginia Department of Environmental Protection (**WVDEP**) issued its Permitting Guidance for Surface Coal Mining Operations to Protect West Virginia s Narrative Water Quality Standards (**WVDEP Narrative WQS Implementation Guidance**). The basic narrative water quality standard that this Guidance seeks to implement requires that no significant adverse impact to the chemical, physical, hydrologic, or biological components of aquatic ecosystems shall be allowed. The WVDEP Narrative WQS Implementation Guidance sets forth detailed, lengthy procedures for determining whether a proposed NPDES discharge has a reasonable potential to cause a violation of this narrative standard, and if so, the permit conditions that should be imposed to assure that no such violations occur. The interpretation and application of this guidance in the future may, in turn, be affected by the EPA s activities mentioned above.

Although we have no immediate need for new 404 Permits to continue our current U.S. mining operations in the short term, some of our future mine plans (including the continuation of existing mines) will require the issuance of such permits to proceed. Whether the regulatory environment will be such that 404 Permits for those projects may be expected to be issued in a timely manner, in the form required for such plans to be implemented, is difficult to predict. Our inability to obtain such permits or any unexpected delay or additional costs incurred in connection with securing such permits could have a material adverse effect on the financial performance of our U.S. coal mining operations.

The cost and availability of reliable transportation could negatively impact our U.S. coal mining operations.

The availability and cost of reliable transportation for our U.S. coal is a critical factor in a customer s purchasing decision. Increases in transportation costs could make coal a less competitive source of energy or could make our coal production less competitive than coal produced from other sources.

Our U.S. mines depend on a single railroad carrier, Norfolk Southern. We also have the ability to export coal through the port of New Orleans on the Gulf of Mexico by trucking coal to a river terminal followed by barging via the Mississippi River.

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Disruptions to railway transport caused by weather-related problems, flooding, drought, accidents, mechanical difficulties, strikes, lockouts, bottlenecks, and other events could temporarily impair our ability to supply coal to our customers. For example, the snowfall in the winter of 2009-2010, which was the heaviest in the last decade, caused delays in our supplies of coal to customers. Furthermore, improvement works carried on at the Norfolk and Southern Hartland Corridor Tunnel caused delays in railcar deliveries to our mines for up to four days. In addition, after Norfolk Southern made certain cuts in equipment and personnel during the economic slowdown in 2009, it is currently facing difficulties in building up its transportation capacity to meet the increasing demand for railcars.

Similar risks exist in the logistical chain to New Orleans. The 2011 record-breaking flooding of the Mississippi River and its tributaries caused weeks of delay resulting in force majeure conditions. Although we did not miss any shipments, our customers have had to reschedule vessels affecting delivery timelines and inventory levels. In addition, we face labor and fuel cost issues which can adversely affect the truck-haul element of this logistical chain. Transportation providers may face increased regulation or other difficulties in the future that may impair our ability to supply coal to our customers at a competitive cost. If there are disruptions of the transportation services and we are unable to make alternative arrangements to ship our coal, the financial performance of our U.S. coal mining operations could be materially adversely affected.

Defects in title or loss of any leasehold interests in our U.S. properties could limit our ability to conduct mining operations or result in significant cost increases.

We conduct a significant part of our mining operations in the United States on properties that we lease. A title defect or the loss of any lease could adversely affect our ability to mine the associated reserves. In addition, from time to time the rights of third parties for competing uses of adjacent, overlying, or underlying lands such as for oil and gas activity, coalbed methane, production, pipelines, roads, easements and public facilities may affect our ability to operate as planned if our title is not superior or alternative arrangements cannot be negotiated. Title to much of our leased properties and fee mineral rights is not usually verified until we make a commitment to develop a property, which may not occur until after we have obtained necessary permits and completed exploration of the property. Our right to mine some of our reserves may be adversely affected if defects in title or boundaries exist or competing interests cannot be resolved. In order to obtain leases or other rights to conduct our mining operations on property where these defects exist, we may incur unexpected costs or be compelled to leave un-mined the affected reserves, resulting in a material adverse effect on the financial performance of our U.S. coal mining operations.

A shortage of skilled labor in the mining industry could negatively impact the profitability of our U.S. coal mining operations.

Efficient coal mining using modern techniques and equipment requires skilled workers. Ideally, we seek to hire individuals with sufficient level of experience to ensure a minimum level of operational efficiency. In recent years, the U.S. coal mining industry has faced a shortage of skilled workers, thus increasing costs and decreasing productivity. In particular, we are facing difficulties in recruiting skilled workers at our underground operations. Furthermore, the competition from neighboring mining companies for attracting skilled workers is significant. In the event the shortage of experienced labor continues or worsens, it could have an adverse impact on our labor productivity and costs and our ability to expand production in the event there is an increase in the demand for our coal.

The Bluestone companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters and face a highly litigious environment.

Like other mining businesses in the United States, our Bluestone companies are subject to a wide range of rules and regulations, including those governing water discharges, air emissions, the management, treatment,

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storage, disposal and transportation of hazardous materials and waste, protection of plants, wildlife and other natural resources, worker health and safety, reclamation and restoration of properties after mining activities cease, surface subsidence from underground mining, blasting operations, noise, the effects of mining on surface water and groundwater quality and availability, and reporting and recordkeeping. Violations of these requirements can result in fines, penalties, required facility upgrades or operational changes, suspension or revocation of permits and, in severe cases, temporary or permanent shut-down of our mines. We incur substantial costs in order to comply with governmental regulations that apply to our operations in the United States.

We could also become subject to investigation or cleanup obligations, or related third-party personal injury or property damage claims, in connection with on-site or off-site contamination issues or other non-compliance with U.S. regulatory requirements. In particular, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (**CERCLA** or commonly known as the **Superfund law**) and analogous state laws, current and former property owners and operators, as well as hazardous waste generators, arrangers and transporters, can be held liable for investigation and cleanup costs at properties where there has been a release or threatened release of hazardous substances. Such laws can also require so-called potentially responsible parties to fund the restoration of damaged natural resources or agree to restrictions on future uses of impacted properties.

Liability under such laws can be strict, joint, several and retroactive. Accordingly, we could theoretically incur material liability (whether as a result of government enforcement, private contribution claims or private personal injury or property damage claims) for known or unknown liabilities at (or caused by migrations from or hazardous waste shipped from) any of our current or former facilities or properties, including those owned or operated by our predecessors or third parties or at third-party disposal sites. In addition, lawsuits by employees, customers, suppliers and other private parties may be costly to defend and could lead to judgments for damages.

Currently, six of the 45 U.S. National Pollutant Discharge Elimination System (NPDES) permits for our Bluestone operations are pending renewal with the U.S. Environmental Protection Agency. These permits have been administratively extended for a period of six months and currently Bluestone is not prevented from mining coal. However, should these permits remain unrenewed after the six-month period expires in 2011, there is a significant risk that such permits will be withdrawn and production at some of the Bluestone operations may be suspended for an indefinite period of time.

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

New legislation, regulations and rules adopted or implemented in the future (or changes in interpretations of existing laws and regulations) may materially adversely affect our U.S. operations. Some U.S. commentators expect that the current U.S. administration could implement policies or sponsor legislation that will make the production and/or consumption of coal in the United States more expensive and create additional regulatory burdens, and it remains unclear whether this will affect the business and prospects of the Bluestone companies. In particular, future regulation of greenhouse gases in the United States could occur pursuant to future treaty obligations, statutory or regulatory changes under the U.S. Clean Air Act, federal or state adoption of a greenhouse gas regulatory scheme, or otherwise. In May 2010, the EPA finalized its Greenhouse Gas Tailoring Rule establishing criteria that define when permits under the New Source Review Prevention of Significant Deterioration and Title V operating permit programs are required for new and existing industrial facilities. This final rule tailors the requirements of the Clean Air Act permitting programs to phase in various greenhouse gas related requirements over time. The EPA has also announced plans to establish greenhouse gas standards under the Clean Air Act for fossil fuel fired power plants. In addition, we are required to report to the EPA our annual greenhouse gas emissions from certain of our operations. Many states and regions have undertaken greenhouse gas initiatives, including cap-and-trade programs.

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

Furthermore, surface and underground mining are subject to increasing regulation, including pursuant to the federal MINER Act, blast survey and monitoring restrictions, and requirements by the Corps and the U.S. Department of Interior s Office of Surface Mining, which may require us to incur additional costs. Recent underground mining accidents in the United States, culminating in a mine explosion in West Virginia that killed 29 miners in April 2010, have resulted in calls by government officials for the U.S. Mine Safety and Health Administration to intensify its oversight and enforcement of mine safety, and to impose increasingly punitive measures against mining companies that violate mine safety laws, including, where necessary, closure of hazardous mines. For example, federal and West Virginia authorities have generally been conducting enhanced inspections of coal mines for various safety concerns. Increased oversight, enforcement and regulation of mine safety could cause us to incur increased compliance costs, some of which could be material.

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

Numerous governmental permits and approvals are required for our U.S. coal mining operations and obtaining these permits can take a substantial amount of time. For example, it typically takes up to 18 months to obtain all required permits for new underground operations and up to four years for new surface mine operations. Many of our permits are subject to renewal from time to time, and renewed permits may contain more restrictive conditions than existing permits. In addition, violations of our permits may occur from time to time, permits we need may not be issued or, if issued, may not be issued in a timely fashion.

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

The U.S. Surface Mining Control and Reclamation Act **(SMCRA)** and counterpart state rules establish operational, reclamation and closure standards for all aspects of surface mining in the United States, as well as many aspects of underground mining. Our estimated reclamation and mine closure obligations could change significantly if actual amounts (which are dependent on a number of variables, including estimated future retirement costs, estimated proven reserves and assumptions involving profit margins, inflation rates and interest rates) differ significantly from our assumptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Extensive environmental regulation in the United States, including the Clean Air Act and similar state and local laws, affect our U.S. customers and could reduce the demand for coal as a fuel source and cause our sales to decline.

The U.S. Clean Air Act and similar state and local laws extensively regulate the amount of sulfur dioxide, particulate matter, nitrogen oxides, mercury and other compounds that are emitted into the air from power plants and other sources. Stricter regulation of such emissions could increase the cost of using coal in the United States, reducing demand and make it a less attractive fuel alternative for future planning.

For example, in order to meet the Clean Air Act limits on sulfur dioxide emissions from power plants, coal users may need to install scrubbers, use sulfur dioxide emission allowances (some of which they may purchase), blend high sulfur coal with low sulfur coal or switch to other fuels. Furthermore, some of EPA s initiatives to reduce sulfur dioxide, nitrous oxide and mercury emissions have been the subject of litigation in recent years,

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and there is continued uncertainty over lawsuits by environmental groups and other public resistance during the initial permitting process for new coal-fired power plants, which has had a chilling effect on the construction of such plants. This increasing focus on power plant emissions could adversely impact the demand for coal.

To the extent compliance with these laws and regulations and any new or proposed requirements affect our customers in the United States, an important market for the Bluestone companies, this could materially adversely affect our business, financial condition, results of operations and prospects.

Mining in the Northern and Central Appalachian region of the United States is more complex and involves more regulatory constraints than in other U.S. geographic areas.

The geological characteristics of Northern and Central Appalachian coal reserves, such as depth of overburden and coal seam thickness, make them complex and costly to mine. As such mines become depleted, 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. In addition, as compared to mines in other areas such as in the western United States, permitting, licensing and other environmental and regulatory requirements are more costly and time consuming to satisfy. These factors could materially adversely affect the mining operations and cost structures of, and customers ability to use coal produced by, operators in Northern and Central Appalachia, including our Bluestone companies.

Item 4. ***Information on the Company***

Overview

We are a vertically integrated group with revenues of $12.5 billion in 2011, of $9.7 billion in 2010 and $5.8 billion in 2009, with operations organized into four industrial segments: mining, steel, ferroalloys and power, each of which has a managing company set up to perform the functions of respective executive management bodies of the companies within the segment, as described below.

Our group includes a number of logistical and marketing companies that help us to deliver and market our mining products, manufactured steel goods and ferroalloys products. We have freight seaports in Russia on the Sea of Japan (Port Posiet) and on the Sea of Azov (Port Temryuk) and a freight river port on the Kama River, a tributary of the Volga River in central Russia (Port Kambarka). We have a freight railcar and locomotives pool, and, in December 2011, we finished laying track for the rail line to our Elga coal deposit in the Sakha Republic, providing it with rail access. Since 2009, we started to build up our own truck fleet in Russia, Romania, Turkey and Germany.

We have a network of overseas subsidiaries, branches, warehouses, service centers and agents to market our products internationally, and we have a Russian domestic steel retail and service subsidiary with 70 regional offices as of December 31, 2011.

Mechel OAO is an open joint-stock company incorporated under the laws of the Russian Federation. From the date of our incorporation on March 19, 2003 until July 19, 2005, our corporate name was Mechel Steel Group OAO. We conduct our business through a number of subsidiaries. We are registered with the Federal Tax Service of the Russian Federation under main state registration number (OGRN) 1037703012896. Our principal executive offices are located at Krasnoarmeyskaya Street, 1, Moscow 125993, Russian Federation. Our telephone number is +7 495 221 8888. Our Internet addresses are www.mechel.com and www.mechel.ru. Information posted on our website is not a part of this document. We have appointed C T Corporation System, located at 111 Eighth Avenue, New York, New York 10011, as our agent upon which process may be served for any suit or proceeding arising out of or relating to our shares, ADSs or the ADS deposit agreements.

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Mining Segment

Our mining segment produces metallurgical and steam coal, as well as iron ore, coke and limestone.

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

Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky basin, near Mezhdurechensk in Western Siberia. These mines include four open pit mines and three underground mines. Another our subsidiary, Yakutugol, operates coal mines located in the Sakha Republic in Eastern Siberia, consisting of three open pit mines and one underground mine. Yakutugol also holds the licenses for the Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit. Our Bluestone subsidiaries operate three mining complexes in West Virginia, United States, consisting of open pit and underground mines. Our mining segment also provides coal washing services, both internally and to third parties.

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

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

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

Mechel Mining Management, a wholly-owned subsidiary of Mechel Mining, acts as the sole executive body of our coal and iron ore mining companies and coke producers.

Steel Segment

Our steel segment produces and sells semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including wire products, stampings and forgings.

Our steel production facilities in Russia include one integrated steel mill, one steel-making mill, a wire products plant and forging and stamping mills in the southern Ural Mountains, a wire products plant in northwestern Russia near the border with Finland. Outside of Russia, our steel facilities are in the E.U., including a wire products plant in Lithuania and five steel mills in Romania. In August 2011, we acquired 100% of Invicta Merchant Bar Ltd., a steel plant located in Queenborough, the United Kingdom. In December 2011, we acquired 100% of the shares in Donetsk Electrometallurgical Plant, a steel plant located in Donetsk, Ukraine.

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

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

Ferroalloys Segment

Our ferroalloys segment produces and sells low-ferrous ferronickel, ferrochrome and ferrosilicon. We have owned the Southern Urals Nickel Plant (a nickel mining and production operation) since 2001. We acquired

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Bratsk Ferroalloy Plant (a ferrosilicon producer) in 2007. In April 2008, we acquired a 99.3% stake in Oriel Resources and subsequently increased our stake to 100%. The assets acquired with Oriel Resources included Tikhvin Ferroalloy Plant, a ferrochrome producer located near St. Petersburg, as well as the Voskhod chrome and Shevchenko nickel projects in Kazakhstan. The acquisition of Oriel Resources was a key milestone in the development of our ferroalloys segment. The activities of this segment are aimed at increasing the efficiency of our steel segment by supplying raw materials (ferroalloys) to the steel segment for specialty and stainless steel production.

In October 2008, we completed the consolidation of our ferroalloys assets in Oriel Resources. Oriel Resources now owns a 100% interest in Bratsk Ferroalloy Plant, an 84.06% interest in Southern Urals Nickel Plant, and holds through its subsidiary a 100% interest in Tikhvin Ferroalloy Plant and licenses for the Voskhod chrome and the Shevchenko nickel deposits in Kazakhstan. Southern Urals Nickel Plant produces nickel in Orsk in the Orenburg region, in the southern part of Russia s Ural Mountains, and operates two open pit nickel ore mines, Sakhara and Buruktal. Mechel Ferroalloys Management acts as the sole executive body of the companies in our ferroalloys segment.

Power Segment

The power segment was formed in April 2007, when we acquired a controlling interest in Southern Kuzbass Power Plant, located in Kaltan, in the Kemerovo region, and it sells electricity and capacity to the wholesale market, as well as supplies electricity within our group. In June 2007, we acquired a controlling interest in Kuzbass Power Sales Company, the largest power distribution company in the Kemerovo region. In December 2007, we purchased a 49% stake in Toplofikatsia Rousse, a power plant located in Rousse, Bulgaria, which uses steam coal mined by our Southern Kuzbass Coal Company and we increased our stake in Toplofikatsia Rousse to 100% in December 2010. Our power segment enables us to market higher value-added products made from our steam coal, such as electricity and heat energy, and increase the electric power self-sufficiency of our mining and steel segments. Mechel Energo acts as the sole executive body of Southern Kuzbass Power Plant and Kuzbass Power Sales Company in our power segment.

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Competitive Strengths

Our main competitive strengths are the following:

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

We are a leading coking coal producer and international coking coal exporter by volume in Russia.

According to AME Mineral Economics (Hong Kong) Ltd. (**AME**), we were the ninth largest metallurgical coal exporter in the world in 2011.

In 2011, we were the largest coking coal producer in Russia with a 20.2% market share in the coking coal market in Russia by production volume, according to the Central Dispatching Department of Fuel and Energy Complex (**Central Dispatching Department**), a Russian information agency reporting on the fuel and energy industry. We were also Russia s largest hard-coking coal producer with a 52.1% market share in 2011, according to the Central Dispatching Department. In 2011, our export sales of coking coal were the largest by volume among Russian companies, according to RasMin OOO (**RasMin**), a private information and research company focusing on the coal-mining industry.

We have a large coking coal reserves base in Russia and a full-range offering of high-quality coal for blast furnace steel producers.

Our total coal reserves, accounted as per the SEC Industry Guide 7, amounted to 3,252.9 million tonnes as of December 31, 2011.

Our coal reserves allow us to supply steel producers and coke makers globally with a full range of coal grades to make quality metallurgical coke or to use in PCI-assisted and sintering-assisted steel manufacturing. In particular, Southern Kuzbass Coal Company produces semi-hard and semi-soft coking coal concentrates, as well as PCI and anthracite (fine and sized) grades of coal. Most of the coking coal grades of Southern Kuzbass Coal Company are sold in Russia, while PCI and anthracite grades of coal are exported. Yakutugol produces low volatile hard coking coal concentrate grade used by customers both in Ukraine and in the Asia-Pacific region, while our Bluestone coal assets produce low, medium and high-volatile hard coking coal concentrate grades used predominantly by customers in the United States, Europe, Asia-Pacific region and South America. The ability to serve our customers throughout the world with a broad range of metallurgical coal grades gives us a competitive advantage in winning new sales markets and establishing long-term relationship with the customers.

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

According to Metal Expert, a source for global and steel and raw materials market news and analytics, in 2011, we were Russia s second largest producer of long steel products (excluding square billets) by production volume, second largest producer of reinforcement bars (rebar), largest producer of wire rod and largest producer of wire products. Our long steel products business has particularly benefited from the increased infrastructure and construction activity in Russia over the last 10 years. Our share of Russia s total production volume of rebar in 2011 was approximately 24.2%, according to Metal Expert. According to Metal Expert and Chermet, a Russian ferrous metals industry association (**Chermet**), we are Russia s second largest producer of specialty steel by production volume, accounting for 27.8% of Russia s total specialty steel output in 2011. Our product range in specialty steel is broader and more comprehensive than other Russian producers, giving us an added advantage in our markets. According to Prommetiz, we are Russia s largest producer of wire products by production volume, accounting for 38.9% of Russia s total wire products output in 2011. Our product range in wire products is broader than other Russian producers and allows to cover all needs of customers, giving us an added advantage in our markets.

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High degree of vertical integration

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

We believe that our internal supplies of coking coal, iron ore and ferroalloys give us significant advantages over other steel producers, such as higher stability of operations, better quality control of end products, reduced production costs, improved flexibility and planning latitude in the production of our steel and value-added steel products and the ability to respond quickly to market demands and cycles. We are capable of being fully self-sufficient with respect to coke, 93% self-sufficient with respect to ferroalloys (FeSi, FeNi, FeCr) and 30% self-sufficient with respect to iron ore concentrate. Steam coal is not used in steel production. We believe that the level of our self-sufficiency in raw materials gives our steel business a significant competitive advantage.

In 2011, we internally sourced 89% of the nickel, 100% of the ferrosilicon and 85% of the ferrochrome requirements of our steel segment. In 2011, we satisfied approximately 21% of our electricity needs internally.

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

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

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

We are committed to maximum efficiency in delivering goods to consumers and have been actively developing our own logistics network. Using our own transportation capacity enables us to save costs as we are less exposed to market fluctuations in transportation prices and are able to establish flexible delivery schedules that are convenient for our customers. Our logistics capacities are currently comprised of two sea ports and a river port, as well as a transport operations company, Mecheltrans, which manages the rail transportation of our products and carries out the overall coordination of our sea and rail transportation logistics for our products. Mecheltrans not only transports our products but also provides transportation services to third parties.

We own two seaports and a river port and we have our own rail rolling stock. Port Posiet in the Russian Far East, on the Sea of Japan, allows us easy access to the Asia-Pacific seaborne markets and provides a delivery terminal for the coal mined by our subsidiary Yakutugol in Yakutia. We are in the process of upgrading Port Posiet, which upon completion in 2013 will enable us to expand the cargo-handling capacity of the port up to 9.0 million tonnes per year and to accommodate Panamax ships, which will increase its attractiveness and utility as an export port for large volumes of coal. Port Kambarka, on the Kama River in the Udmurt Republic (a Russian administrative region also known as Udmurtia) is connected to the Volga River basin and the Caspian Sea, and is connected by canal to the Don River and the Baltic Sea. Port Temryuk on the Sea of Azov, an inlet of the Black Sea basin, is primarily used for coal and metal transshipment and provides us access to the fast-growing economies of the Black Sea basin and beyond. We are also developing a specialized coal transshipment terminal at Port Vanino in the Russian Far East, which is expected to reach an annual capacity of up to 25.0 million tonnes by 2020.

As of December 31, 2011, our subsidiary Mecheltrans owned and leased 8,556 rail freight cars that we use to ship our products. On June 23, 2008, pursuant to the terms of our license to mine the Elga coal deposit we

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

In 2009, Mechel Service, a Russian subsidiary of Mechel Service Global, started to form its own truck fleet for metal products delivery to our clients. As a result of acquisition of 16 new trucks in 2011, the number of its own trucks in Russia increased to 26 units by the end of 2011. In 2011, we also acquired new trucks for our offices in Romania and Turkey and continued to renew our truck fleet in Germany. As of December 31, 2011, the truck fleet of Mechel Service Global and its subsidiaries amounted to 107 units.

One of the lowest-cost metallurgical coal producers

According to AME, our Russian metallurgical coal operations are in the first and second quartiles of the global cash cost curve. Approximately 76.1% of our coking coal production is mined from open pit mines, which we believe is one of the highest rates among our major Russian competitors. Open pit mining is generally considered safer, cheaper and faster than the underground method of coal mining. Most of our mines and processing facilities have long and established operating histories. We view strict cost management and increases in productivity as fundamental aspects of our day-to-day operations, and continually reassess and improve the efficiency of our mining operations.

Strategically positioned to supply key growth markets

Our mining and logistical assets are well-positioned to expand sales to both Atlantic and Asia-Pacific seaborne markets.

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

Our coal-mining operations carried out through the Bluestone companies are situated in West Virginia, just 400 miles from the deep-water port in Norfolk, Virginia and in relative proximity to Baltimore and New Orleans. Historically the Bluestone companies key markets have been in North America, and in the last two years, they have expanded their sales to Asia and Europe. In 2010, we further expanded the geography of the Bluestone companies sales by using our existing international distribution channels to Asia. Due to certain restrictions under the Clean Water Act regulation, we plan to maintain current production volumes and to focus on cost control. For more information on the Clean Water Act see U.S. Environmental, Health, Safety and Related Regulation.

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

Russia is our core steel market and we have significant domestic market shares in all our key specialty steel and rolled long product lines. We believe we have established a strong reputation and brand image for Mechel

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within Russia, just as we have with our international customers. The location of a number of our core steel segment assets in the southern Urals positions us advantageously, from a geographical and logistical perspective, to serve the areas in Russia west of the Urals where Russia s construction industry is most active. The construction industry was a major source of our revenue and we have captured a large portion of the market. According to Metal Expert, our share of Russia s total production volume of construction rebar in 2011 was approximately 24.2%.

Established distribution and sales platform

Our Mechel Service Global distribution platform in Russia has 96 storage sites in 70 cities throughout Russia to serve a broad range of end customers. More than twenty of these facilities provide a number of value added services to our customers including bending and cutting of rebars, cutting and uncoiling of steel ropes, production of wire mesh, and cutting of sheet steel. Retail sites with a set of service equipment for simple processing of rolled metal products have been organized in 19 offices, which allows us to improve service quality for small companies and individuals, as well as to obtain additional margins. In 2012, we plan to continue developing these directions. In Europe, we actively develop sales of metal products through Mechel Service Global s subsidiaries in eleven European countries. Two of these subsidiaries provide services for deep processing of rolled metal products including mechanic, gas, plasma, laser and water cutting, and welding, bending, and the production of welded mesh and frames. In 2011, we have launched new centers for processing of high-quality rolled steel products in France, Italy and Belgium. Currently, we have in total 174 storage sites and service centers in Russia, Europe, Kazakhstan and Turkey servicing more than 25,000 customers.

Our direct access to end customers through the provision of value-added services allow us to obtain real-time market intelligence, improve production planning at our steel facilities, sell more high-margin, value-added products by addressing specific customer needs and further diversify our customer base.

Mechel Service Global sales accounted for 46.1% of our steel segment sales and 26.3% of our total sales in 2011. More than 92% of Mechel Service Global sales was sold domestically. Sales to companies within our group accounted for 4.3% of the total sales of Mechel Service Global (including intra-group sales) in 2011.

We also have a non-retail sales and distribution network represented by our Swiss subsidiaries Mechel Trading and Mechel Carbon with offices in five countries and agents in four additional countries. In September 2011, Mechel Carbon and Somani Group set up a joint venture in India. This network facilitated sales constituting 34.3% of our total sales in 2011, reducing our reliance on the Russian market in the event that it experiences another downturn.

Track record of acquisitions

Building upon our success in turning around the coal operations of Southern Kuzbass Coal Company in the late 1990s and following our acquisition and revitalization of the Chelyabinsk Metallurgical Plant, in the last few years we have acquired other metal finishing and wire products manufacturing operations, as well as mining, power and ferroalloys operations. As we have acquired and integrated companies that are closer to the end-customers and produce higher-value-added products, the nature of our group has transformed steadily from primarily a raw materials processor to a vertically integrated, logistically coherent mining, steel, ferroalloys and power group. Since the acquisition of Chelyabinsk Metallurgical Plant we have executed over 25 acquisitions in the mining, steel, power, ferroalloys, distribution and logistic segments.

The acquisition of Bluestone companies in the United States in May 2009 was Mechel s first experience of acquiring and integrating companies outside Eurasia. The strategic reasons for this acquisition include establishing our coal business on a worldwide level, diversifying our customer base and sales geography and improving the quality and breadth of our offering of coking coal products. With the acquisition of Bluestone, we are now able to supply our customers worldwide with a wider range of coking coal grades.

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Strong and focused management team

Our current management team has significant experience in all aspects of our businesses. Mr. Zyuzin, one of the founders of our group and our controlling shareholder, is our Chairman. Mr. Zuyzin has led our successful transformation from a small coal trading operation to a large integrated metals and mining group. Mr. Zyuzin has over 25 years of experience in the coal mining industry and has a doctorate in coal mining technical sciences. Our divisional management also has long-tenured experience in the mining and metals industry. See Directors and Executive Officers.

Business Strategy

Our goal is to become one of the largest mining and metals companies globally. The key elements of our strategy include the following:

Continue to grow the value of our business on the basis of a vertically integrated holding with our mining and steel divisions forming the backbone of our business model

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

Our coking coal and iron ore production form a solid platform for our steel business and provide a significant portion of the raw materials supply for our pig iron production. The Bluestone acquisition enlarged our coking coal portfolio, adding high-quality hard coking coal with low ash content. This allows us more flexibility to not only serve our coking coal customers, but also to use these grades internally in our coke production. In addition, our ferroalloys segment has the capacity to fully cover our steel productions ferrosilicon, ferrochrome and ferronickel needs, in particular in manufacturing of stainless and specialty steel products, where we have a competitive advantage in our key sales markets. Steam coal produced in our mining operations can be used to feed our power generating business, which we operate not only as a diversification measure and a way to market another value-added product made from our coal, but also as a way to have more control over our energy efficiency and hedge against increases in the price of the electricity. However, even as we expand and develop our internal sourcing capability, we intend to adhere to our longstanding approach of purchasing inputs from third-party suppliers and selling products, including raw materials, to domestic and international customers in a way that we believe creates the most advantageous profit opportunities for our group.

We plan to expand our logistics capabilities.

We intend to selectively expand our logistics capabilities. We plan to expand our own fleet of railcars, balancing transportation security and cost efficiencies. We plan to improve logistics in Europe through the establishment of the company Mecheltrans Global, which will carry out transportation of Mechel s cargos via motor and rail transport, as well as work out optimal logistic schemes of cargo delivery. Development of our two sea ports, Port Posiet and Port Temryuk, will be a key for uninterrupted shipments of our coal and steel products to our main markets, predominantly sales of coal products to our customers in South-East Asia. In order to cater for growing production of export-oriented coal in our mining segment, we contemplate construction of a specialized coal transshipment terminal at Port Vanino in the Russian Far East.

We will leverage synergies among our core businesses.

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

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We intend to concentrate on realizing the maximum potential from our completed acquisitions while also considering new acquisitions and expansion opportunities on a selective basis.

Our strategy has shifted from growing our business through acquisition and expansion opportunities to extracting the maximum value from our existing assets, including recent acquisitions. We now intend to concentrate on efficiency improvements and modernization of the business lines, which we expect will increase the business overall profitability. We may also consider selective disposal of assets which do not fit our main strategy directions in order to minimize opportunity costs and decrease our financial leverage.

We will, however, continue to monitor global mining, steel and ferroalloys markets for new opportunities, including new subsoil licenses in Russia and abroad, focusing on maintaining and expanding our presence in regions with low costs and high economic growth potential. Subject to the intended reduction of our indebtedness, we will seek to selectively acquire value-added downstream businesses in steel processing to help us to improve our product range and reach our customer base, including in new markets.

Develop our substantial reserve base in order to become one of the leaders in key raw materials supplies for the global steel industry

We plan to develop our reserves in order to become one of the top three producers of metallurgical coal globally.

We intend to build on our substantial mining experience and significant resource base by developing our existing coal reserves, particularly to sell more high-quality metallurgical coal and coal products to third parties. We currently plan to increase our annual saleable coal production from 24.6 million tonnes in 2011 to 33.6 million tonnes in 2014. We intend to develop the coking coal reserves of Yakutugol. Yakutugol, which has four producing mines, holds mining rights to reserves that we believe will solidify our position as a leading global producer of coking coal for the future. We intend to selectively seek additional mining licenses through acquisitions and/or participation in auctions and tenders in view of our strategic plans and market dynamics. In particular, we believe that obtaining additional mining rights near the Elga coal deposit would allow us to realize more fully the benefits of our private rail line.

We plan to increase metallurgical coal sales to high-growth international markets.

We intend to continue to capitalize on our ability to serve fast-growing Asian and other international markets by leveraging our growth in production and favorable geographic location of our coal producing and logistics assets. In particular we view Japan, China, South Korea and India as countries to which our international growth strategy will be applied. Following this strategy, in September 2011, we formed Mechel Somani Carbon Private Limited, a joint venture in India with Somani Group, an Indian group engaged, among other activities, in coal trading. The joint venture will engage in distribution of metallurgical coals on the Indian market. We further plan to expand production at our Bluestone operations to export coking coal to fast-growing South American markets including Brazil.

We plan to increase production of iron ore in the future to complement the sales of metallurgical coal to our customers.

While our existing iron ore operations will maintain our annual iron ore concentrate production at the level of approximately five million tonnes, we plan to increase it in the future following the development of the recently acquired Pionerskoye iron ore deposit, the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit. Growth of production from these operations will increase our sales of iron ore products to third parties, including exports. Our ability to offer iron ore feed together with metallurgical coal products to our customers will further enhance our competitive strength in our key markets.

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Strengthening our position as a major player on our key steel products markets

We plan to increase our focus on our steel products offering to the Russian and CIS construction industries.

As a leader in long steel production in Russia and the CIS we will continue to invest in our exposure to the construction sector. While we expect to benefit from growing demand for our products fuelled by new infrastructure projects in these markets, we will continue to selectively invest in technology and equipment modernization, optimizing our product catalog and cutting production costs with a view to increase steel margins. In continuation of this strategy in 2012 and beyond, we aim to complete the universal rail and structural rolling mill at Chelyabinsk Metallurgical Plant, which will widen our offer book to higher value added products such as structural shapes and rails. That will significantly improve our competitive advantage as a full product range supplier to the construction sector and as an important supplier to the Russian Railways. See Capital Investment Program.

We intend to increase our group s output and improve quality of high-value-added steel products.

Chelyabinsk Metallurgical Plant, Izhstal and Urals Stampings Plant form the core of our group s specialty and stainless steel platform. In some of these products we hold a unique market niche, which serves as the basis for further improvement in our market share and growth of our customer base. Beloretsk Metallurgical Plant is our main wire products production facility. Investments made in Beloretsk Metallurgical Plant in the last few years have elevated our group as Russia s largest wire products producer. The recent modernization of Izhstal, finished in 2011, will further improve the quality of our high-value-added products and will help us to capitalize on our position as a supplier not only in Russia but in other markets, such as Europe, where our extensive distribution platform will enhance our competitive advantage through direct access to our core customers and established business relationships.

Capitalize on our domestic and European distribution capabilities.

Our continued focus on the domestic Russian market is a key element of our strategy. We are particularly well-positioned to supply construction and infrastructure projects in Russia from our Chelyabinsk Metallurgical Plant located in the southern Urals and our Beloretsk Metallurgical Plant in Bashkortostan. The geographical reach of our Mechel Service Global production and logistics facilities and sales network provides us with a strong platform to grow our sales. Before 2009, Mechel Service Global s operations in Europe were limited to Germany, Romania and Belgium. In 2009 and 2010, Mechel Service Global expanded its distribution network to the Netherlands, Serbia, Bulgaria, Italy, the United Kingdom, France, Hungary, the Czech Republic and Turkey. In 2011, Mechel Service Global s distribution network generally developed through opening additional branches and sales offices of existing companies, which increased sales volumes by approximately 57% compared to 2010. Previously opened companies reached the planned sales volumes of steel products and strengthened their presence in regional markets. In 2012, we will limit the further expansion of our distribution network and will focus on improving the quality of services to our customers and inventory and receivables management, which should help us to maintain stable sales of our products and improve our cash flow in the current economic slowdown.

Our History and Development

We trace our beginnings to a small coal trading operation in Mezhdurechensk in the southwestern part of Siberia in the early 1990s. See Item 5. Operating and Financial Review and Prospects History of Incorporation. Since that time, through strategic acquisitions in Russia and abroad, Mechel has developed into a large, integrated mining, steel, ferroalloys and power group, comprising coal, iron ore, coke, steel, nickel, ferrochrome, ferrosilicon and limestone production, with operations and assets in Russia, Romania, Bulgaria, Lithuania, Ukraine, Kazakhstan, the United Kingdom and the United States. With each of our acquisitions, we implement operational and management practices. We also devote the management, technological and logistical resources necessary to integrate new acquisitions into all aspects of our business, including the supply of raw materials and steel, production methodologies and sales and distribution.

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After the restructuring of our assets into separate mining, steel, ferroalloys and power segments, we have been implementing management, reporting and control systems for each respective subsidiary holding company, allowing for the preparation of consolidated financial statements for each of them. We pursued the operational independence of our segments further, and during 2008 2011 we consolidated our major mining assets under Mechel Mining, which has now independent management and corporate governance.

We intend to retain a controlling voting interest in each of our subsidiary holding companies as we continue to build upon our business model of vertical integration among our assets. See Risk Factors Risks Relating to Our Business and Industry Changes in our subsidiaries management and corporate governance might affect our integrated business model.

Mining Segment

Our mining segment produces coking coal and other types of metallurgical coal (anthracite and coal for pulverized, or finely crushed, coal injection (PCI)), steam coal, coking coal and steam coal concentrates, as well as coke and chemical products, iron ore, iron ore concentrate and limestone. Our mining segment also includes certain transportation and logistics facilities and engineering operations. Our coal operations consist of Southern Kuzbass Coal Company, Yakutugol and Bluestone, which together produced 18.0 million tonnes of raw coking coal, 7.3 million tonnes of raw steam coal, 2.3 million tonnes of raw anthracite and 2.1 million tonnes of PCI in 2011. Our coke operations consist of Moscow Coke and Gas Plant and Mechel Coke, which together produced 3.7 million tonnes of coke in 2011. Metallurgical coal constituted over 76% of our total run-of-mine, or ROM, coal production in 2011 placing us at the top of our peer group as the leading coking coal producer and exporter in Russia. Our iron ore operations consist of Korshunov Mining Plant which produced 12.8 million tonnes of iron ore and 4.5 million tonnes of iron ore concentrate in 2011. Our limestone operations consist of Pugachevsky Open Pit which produced 2.1 million tonnes of limestone in 2011.

Description of key products

Coking coal and metallurgical coal. Southern Kuzbass Coal Company produces high-quality bituminous coal, which is washed to reduce the ash content. The premier product is a high-quality, low phosphorous, low sulfur semi-soft to semi-hard coking coal used to produce coke for the iron and steel industry. Other products produced by Southern Kuzbass Coal Company include PCI and anthracite. Yakutugol produces hard coking coal of low volatile content. Our West Virginia-based Bluestone operations produce a range of metallurgical coals including low, medium and high-volatile hard coking coal. The Bluestone mines blend low, medium and high volatility hard coking coal in different proportions to meet the requirements of their customers. The final products are blended at the port, as they are loaded on to the customer s vessels.

Steam coal. We produce both raw and washed steam coal products for use in the power generation industry. Southern Kuzbass Coal Company, Yakutugol and our Bluestone operations produce high-energy steam coal as part of their product mix.

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

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

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Iron ore concentrate. From our Korshunov Mining Plant we offer iron ore concentrate with a standard iron fraction of 62%. In August 2011, Yakutugol obtained the subsoil license for the Pionerskoye iron ore deposit in Yakutia. The deposit has iron ore with high iron content and dolomite, which can be used to produce refractories. In March 2012, Yakutugol obtained two subsoil licenses for the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit in Yakutia. Our Yakutugol deposits contain high-quality iron ore, which allows obtaining iron ore concentrate with 65% iron content.

Limestone. The crushed limestone produced at our Pugachevsky Open Pit is separated into three product categories for sale: 0- 20 millimeters, 20-40 millimeters and 40-80 millimeters.

Mining process

Coal. At our Russian and U.S. mines, coal is mined using open pit or underground mining methods. Following a drilling and blasting stage, a combination of shovels and draglines is used for moving coal and waste at our open pit mines. Production at the underground mines is predominantly from longwall mining, a form of underground coal mining where a long wall of coal in a seam is mined in a single slice. After mining, depending upon the amount of impurities in the coal, the coal is processed in a washing plant, where it is crushed and impurities are removed by gravity methods. Coking coal concentrate is then transported to coking plants for conversion to coke for use in pig iron smelting at steel plants. Steam coal is shipped to power utilities which use it in furnaces for steam generation to produce electricity. Among the key advantages of our mining business is the high quality of our coking coal, the low level of volatile matter in our steam coal and our modern coal washing facilities in Russia, primarily built during the 1970s and 1980s, including facilities built as recently as 2000-2002. Coal extracted at each of the Bluestone mining complexes is processed at the on-site coal preparation plants. Coal mined in Central Appalachia typically contains impurities such as rock, shale and clay and occurs in a wide range of particle sizes. The coal preparation plants treat the coal to ensure a consistent quality and to enhance its suitability for particular end-users. Steam coal is not processed and is sold as is, as well as some high-quality coking coal which does not need washing.

Iron ore. All three of our Korshunov Mining Plant mines currently producing iron ore are conventional open pit operations. Following a drilling and blasting stage, ore is hauled by rail hopper cars to the concentrator plant. At the concentrator plant, the ore is crushed and ground to a fine particle size, then separated into an iron ore concentrate slurry and a waste stream using wet magnetic separators. The iron ore is upgraded to a concentrate that contains about 62.9% elemental iron. Tailings are pumped to a tailings dam facility located adjacent to the concentrating plant. The concentrate is sent to disk vacuum filters which remove the water from the concentrate to reduce the moisture level, enabling shipment to customers by rail during warmer months, but in colder periods the concentrate must be dried further to prevent freezing in the rail cars. Korshunov Mining Plant operates its own drying facility with a dry concentrate production capacity of up to 16,000 tonnes per day. In August 2011, Yakutugol obtained the subsoil license for the Pionerskoye iron ore deposit in Yakutia. The deposit has iron ore with high iron content, which we anticipate will allow us to produce iron ore concentrate at the early stages of development of the mine without the need to use complex beneficiation technologies. In March 2012, Yakutugol obtained subsoil licenses for the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit in Yakutia. We plan to develop all new iron ore deposits with the open pit mining method, using excavators and trucks.

Limestone. Our limestone mining operation uses conventional open pit mining technology. Ore is drilled and blasted, then loaded with electric shovels into haul trucks. Relatively minor amounts of waste are hauled to external dumps. The ore is hauled to stockpiles located adjacent to the crushing and screening plant. Ore is crushed, screened and segregated by size fraction.

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Coal production

Our coal production consists of the following mines in Russia and the United States:

Subsidiary (Location)	Surface	Underground
Yakutugol (Sakha Republic, Russia)	Neryungrinsky Open Pit Kangalassky Open Pit Elga Open Pit	Dzhebariki-Khaya Underground
Southern Kuzbass Coal Company (Kuzbass, Russia)	Sibirginsky Open Pit Tomusinsky Open Pit Olzherassky Open Pit Krasnogorsky Open Pit	V.I. Lenina Underground Sibirginskaya Underground Olzherasskaya-Novaya Underground
Bluestone (West Virginia, United States)	Job 32 Job 39 Job 38 Job 30	Mine 58 Mine 65 Spider Ridge Ben s Creek 1 (Frontier)

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

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

	2011		2010		2009	
	Tonnes	% of Production	Tonnes	% of Production	Tonnes	% of Production
	(in millions of tonnes)[1]					
Coking Coal						
Yakutugol	6.3		7.4		3.0	
Southern Kuzbass Coal Company	6.8		7.1		5.0	
Bluestone[2]	4.9		4.1		2.3	
Total Coking Coal	18.0	65.2%	18.6	66.2%	10.3	57.6%
Steam Coal						
Yakutugol	1.7		1.9		2.8	
Southern Kuzbass Coal Company	5.1		5.0		3.6	
Bluestone[2]	0.5		0.7		0.1	
Total Steam Coal	7.3	26.5%	7.5	26.9%	6.5	36.5%
Anthracite						
Yakutugol						
Southern Kuzbass Coal Company	2.3		1.9		1.1	
Bluestone[2]						
Total Anthracite	2.3	8.3%	1.9	6.9%	1.1	5.9%
Total Coal	27.6	100%	28.0	100%	17.9	100%

(1) Volumes are reported on a wet basis.
(2) Includes only post-acquisition production volumes of our Bluestone mines, which were acquired in May 2009.

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

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

	2011		2010		2009	
	Tonnes	% of Production	Tonnes	% of Production	Tonnes	% of Production
	(in millions of tonnes)					
Coking Coal						
Yakutugol	4.7	19%	4.0	19%	2.0	13%
Southern Kuzbass Coal Company	5.1	21%	5.1	24%	4.2	26%
Bluestone[(1)]	2.8	11%	2.4	11%	1.3	8%
Total Coking Coal	12.6	51%	11.5	54%	7.5	47%
PCI						
Yakutugol						
Southern Kuzbass Coal Company	2.1	9%	0.9	4%		
Bluestone[(1)]						
Total PCI	2.1	9%	0.9	4%		
Anthracite						
Yakutugol						
Southern Kuzbass Coal Company	1.1	5%	1.1	5%	0.7	4%
Bluestone[(1)]						
Total Anthracite	1.1	5%	1.1	5%	0.7	4%
Steam Coal						
Yakutugol	3.8	15%	3.1	14%	3.1	19%
Southern Kuzbass Coal Company	4.5	18%	4.3	20%	4.7	29%
Bluestone[(1)]	0.5	2%	0.7	3%	0.1	1%
Total Steam Coal	8.8	35%	8.1	37%	7.9	49%
Total Coal	24.6	100%	21.6	100%	16.1	100%

(1) Includes only post-acquisition production volumes of our Bluestone mines, which were acquired in May 2009.

Yakutugol mines

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

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

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The table below sets forth certain information regarding the subsoil licenses for our coal mines in the Sakha Republic, all of which are held by our subsidiary Yakutugol.

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[1]	Year Production Commenced	Surface Land Use Rights
Neryungrinsky Open Pit			Open pit	2029	Dec 2014	In production	1979	Ownership
	12336 (Moshchny seam)	15.3						
	13413 (Piatimetrovy and Promezhutochny II seams)	30.0			Dec 2025	Exploration	n/a	Ownership
Kangalassky Open Pit			Open pit	2450	Dec 2014	In production	1962	Ownership
	15017 (Kangalassk)	7.7						
Dzhebariki-Khaya Underground			Underground	2105	Dec 2013	In production	1972	Ownership
	15061 (Dzhebariki-Khaya)	14.8						
Elga Open Pit	14425 (Elga)	144.1	Open pit	2102	May 2020	In production	2011	Lease

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

The earliest production at our Yakutugol mines was in 1979, although we acquired these mines and license areas in October 2007. Neryungrinsky Open Pit produces low-volatile coking coal grades and steam coal which is sold in the Asian Pacific region, primarily to Japan, South Korea and China. Neryungrinsky Open Pit has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. Kangalassky Open Pit produces steam coal that is sold as fuel for power plants in Yakutia. It is accessible through an all-weather road from Kangalassy and through a highway from Yakutsk. The Dzhebariki-Khaya Underground produces steam coal, most of which is sold to the state housing and municipal services administration. The Dzhebariki-Khaya Underground is accessible only through the Aldan River. We also have a subsoil license to develop the Piatimetrovy and Promezhutochny II seams.

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

	2011		2010		2009	
Mine	Tonnes	% of Total Production	Tonnes	% of Total Production	Tonnes	% of Total Production
			(in millions of tonnes)[1]			
Coking Coal						
Neryungrinsky Open Pit	6.3		7.4		3.0	
Total Coking Coal	6.3	78.8%	7.4	79.5%	3.0	52.1%
Steam Coal						
Neryungrinsky Open Pit	1.1		1.2		2.2	
Dzhebariki-Khaya Underground	0.4		0.5		0.4	
Elga Open Pit	0.1					
Kangalassky Open Pit	0.1		0.1		0.2	
Total Steam Coal	1.7	21.2%	1.9	20.5%	2.8	47.9%

Total Coal	8.0	100%	9.3	100%	5.8	100%

(1) Volumes are reported on a wet basis.

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

Coal type	Region	2011	2010
		(in thousands of tonnes)	
Coking coal	Asia	3,315.2	3,416.1
	CIS	1,230.0	428.1
	Europe	4.0	0.0
	Russia	0.0	26.9
Total		4,549.2	3,871.1
Steam coal	Russia	1,875.9	1,471.6
	Asia	131.9	230.1
	Europe	0.0	15.1
Total		2,007.8	1,716.8
Middlings	Russia	1,848.0	1,866.0
	Asia	72.4	0.0
Total		1,920.4	1,866.0
Total		8,477.4	7,453.9

The Elga coal deposit is located in the Neryungrinsk municipal district in the southeast of Yakutia near Amur region (which borders China) and Khabarovsk Krai (which has a long coastline on the Sea of Okhotsk, an arm of the Pacific Ocean). The closest inhabited localities are Verkhnezeysk village, located 320 kilometers south of the deposit, and the town of Neryungri, located 415 kilometers to the west. The Elga coal deposit lies in the South Yakutsk Basin of the Toko Coal-Bearing region. This region was first discovered and explored in 1952 with the first geological surveys being conducted in 1954 through 1956 followed by prospecting surveys in 1961 through 1962. Trenching along the outcrops was conducted in 1980 through 1982 followed by exploration drilling that was completed in 1998. Since 1998, there have been several studies on the Elga coal deposit, including geology and resources, mine planning, rail line construction and feasibility studies.

In 2009, our subsidiary Mechel Engineering worked out the general scheme of the Elga coal complex development, which includes a basic technical layout of the main facilities (housing complex, railway station, concentrating plant) and sets the order of priority of construction and operation of the open pit mine. In 2009, the design institute NTC Geotechnology OOO developed a plan of initial mine block development for the three-year period from 2010 through 2012. The plan was approved by the Central Commission for Development of Deposits of the Federal Agency for Subsoil Use and the Russian Main Department of State Expertise. In 2011, Mechel Engineering prepared the project documentation for the first stage of the development of the Elga coal complex with an annual production capacity of nine million tonnes of raw coal by 2015. The project documentation was approved by the Russian Main Department of State Expertise. In August 2011, we concluded a contract for engineering and procurement of a seasonal washing plant with a seasonal production capacity of 2.0 million tonnes. In November 2011, we concluded a contract for engineering, procurement and construction of a housing complex for 3,000 miners and workers who will operate the Elga coal complex.

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

Overburden removal at the Elga deposit commenced in November 2010. Coal mining at the Elga Open Pit commenced in August 2011. The coal is transported on our private rail line to the Ulak railway station at the Baikal-Amur Mainline and then over the Baikal-Amur Mainline to end customers.

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The Elga Open Pit will produce two types of coal: high-quality hard coking coal (high-volatile) and steam coal. It will also produce middlings as a by-product of the coking coal washing process.

Currently, Elga has an electricity substation with six diesel power generators with a total installed capacity of 2.8 megawatts, or MW. Federal Grid Company, the state-owned operator of the unified electricity grid, is installing high-voltage transmission lines to deliver electricity from the Zeysky hydro power plant located 270 kilometers from the site, and we are constructing electricity-receiving infrastructure capable of receiving 134 MW. We expect to start receiving electricity from this power plant during the first half of 2013.

According to the conditions of subsoil license for the Elga coal deposit, as amended in May 2010, we are required to meet the following construction deadlines and operational milestones: (1) build a rail line from the Ulak station on the Baikal-Amur Mainline up to the coal deposit by December 31, 2011; (2) complete construction of the first phase of the Elga coal complex by December 31, 2013; (3) reach annual coal production capacity of 9.0 million tonnes by July 1, 2013; (4) reach annual coal production capacity of 18.0 million tonnes by July 1, 2018; and (5) commission a coal washing plant with an annual capacity of 9.0 million tonnes by December 31, 2015.

In view of our commitments under the subsoil license, we have proactively applied for and obtained amendments to certain terms of the subsoil license in order to stay in compliance with the terms of the license. In particular, on May 14, 2010, the Ministry of Natural Resources and Ecology extended certain construction deadlines as follows: (1) completion of the construction of the rail line was postponed from September 30, 2010 to December 31, 2011, and (2) completion of the construction of the first phase of the Elga coal complex was postponed from October 30, 2010 to December 31, 2013. The construction of the rail line had already started some time before we acquired the Elga coal deposit in October 2007. Following the acquisition, we continued the construction, but it was delayed during the period from September 2008 to August 2009 because of limited availability of financing during the global financial crisis. In December 2011, we finished laying track for the rail line and are now able to transport coal along it in accordance with the license requirements. We will own and operate the rail line as a private railway. Under Russian law, however, we will have to share excess capacity, if any, with third parties.

If the current construction deadlines and operational milestones are not met, our subsoil license for the Elga coal deposit may be suspended or terminated or we may be required to extend the license under less favorable terms. We believe that given our substantial progress in developing the project and our considerable monetary investment, along with the importance of the project to the region, we will be able to obtain further extensions of the construction deadlines should they be necessary, although we cannot guarantee that such extensions will be granted.

Southern Kuzbass mines

The Kuznetsky Basin, or Kuzbass, is located in the southeastern part of Western Siberia and is one of the largest coal mining areas in the world, covering an area of around 70,000 square kilometers. Coal-bearing seams extend over an area of 26,700 square kilometers and reach a depth of 1,800 meters. Coal was discovered in 1721, and systematic mining started in 1851. During the Soviet era, Kuzbass was the second largest regional coal producer. According to CDU TEK, a Russian information agency reporting on the fuel and energy industry, Kuzbass (Kemerovo region) now accounts for more than 57% of Russia s total coal production.

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

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

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Our Southern Kuzbass mines and the related washing plants produce semi-soft and semi-hard coking coal, anthracite, PCI and steam coal. Our Kuzbass operations are connected by rail to the Trans-Siberian Mainline and substantially all products are shipped by rail. Products are shipped by rail to Russian and Ukrainian customers, to Baltic ports for European customers, to Port Posiet and other ports in the Russian Far East for export to Asia and to Port Temryuk for customers in southern Europe.

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

Mine	License (plot)	Area (sq. km)	Mining Method	Life of Mine	License Expiry Date	Status[1]	Year Production Commenced	Surface Land Use Rights
Krasnogorsky Open Pit	14016 (Tomsk, Sibirginsk)	22.4	Open pit	2043	Dec 2013	In production	1954	Lease
	13367 (Sorokinsk, Tomsk, Sibirginsk)[2]	2.8			Nov 2025	In production	2012	Lease
Olzherassky Open Pit	01374 (Raspadsk, Berezovsk, Sosnovsk)	9.3	Open pit	2044	Jan 2014	In production	1980	Perpetual use
	12939 (Raspadsk)[2]	3.5			Dec 2024	Development	n/a	Lease
	12940 (Berezovsk-2, Berezovsk, Olzherassk)	4.8			Dec 2024	In production	2007	Lease
Tomusinsky Open Pit	13312 (Tomsk)[3]	6.7	Open pit	2022	Dec 2020	In production	1959	Perpetual use
Sibirginsky Open Pit	13639 (Sibirginsk, Kureinsk, Uregolsk)	17.7	Open pit	2047	Jan 2014	In production	1970	Perpetual use
	01557 (New-Uregolsk)[4]	2.4			Apr 2031	In production	2011	Lease
Sibirginskaya Underground	12917 (Sibirginsk, Tomsk)	5.9	Underground	2048	Dec 2024	In production	2002	Lease
V.I. Lenina Underground	14060 (Olzherassk)	10.0	Underground	2033	Nov 2013	In production	1953	Perpetual use
Olzherasskaya-Novaya Underground	14199 (Raspadsk)	1.2	Underground	2079	Dec 2021	In production	2008	Perpetual use, lease
	01471 (Olzherassk-2, Raspadsk)	0.03			Jan 2030	In production	2010	Perpetual use, lease
	13366 (Razvedochny, Raspadsk)	14.6			Nov 2025	Exploration	n/a	Perpetual use, lease
Yerunakovskaya-1 Underground (project)	13237 (Yerunakovsk-1, Yerunakovsk)[5]	8.4	Underground	2033	Jun 2025	Development	n/a	Lease
Yerunakovskaya-3 Underground (prospect)	13238 (Yerunakovsk-3, Yerunakovsk)[5]	7.1	Underground	2115	Jun 2025	Exploration and development	n/a	
Yerunakovskaya-2 Underground (prospect)	13271 (Yerunakovsk-2, Yerunakovsk)[5][6]	7.3	Underground	2051	Jul 2025	Exploration and development	n/a	
Olzherasskaya-Glubokaya Underground (prospect)	13365 (Olzherassk)	19.2	Underground	2211	Nov 2025	Exploration	n/a	
Usinskaya Underground (prospect)	14093 (Olzherassk)	3.6	Underground	2071	Dec 2014	No activity	n/a	

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(1) In production refers to sites that are currently producing coal. Development refers to sites where preliminary work is being carried out. Exploration refers to sites where drilling for calculation of mineral reserves is being carried out. Exploration and development refers to sites where preliminary work and drilling for calculation of mineral reserves are being carried out.
(2) We failed to commence production in 2009 as required by the subsoil license, due to unfavorable economic conditions. We expect to commence production at the Raspadsk license area in the second quarter of 2013. In February 2012, we commenced production at the Sorokinsk license area.
(3) License held by Tomusinsky Open Pit, a subsidiary of Southern Kuzbass Coal Company.
(4) We obtained the New-Uregolsk license through an auction by the state in April 2011. Previously, there was uncertainty whether this license area was included in our Uregolsk existing license, issued in 1994. From 2006 to 2008, Southern Kuzbass Coal Company carried out mining activities on the New-Uregolsk license area and extracted approximately 1.1 million tonnes of coal, which we believe was with the prior consent and knowledge of the relevant authorities. The Russian state authorities have not made any claims for damages for the 1.1 million tonnes of coal previously extracted from the New-Uregolsk license area or the minerals extraction tax thereon, and we do not believe that such claim would be legally supportable.
(5) We failed to commence commercial production in 2011 as required by the subsoil license due to unfavorable market conditions in 2009.
(6) License held by Resurs-Ugol OOO, a subsidiary of Southern Kuzbass Coal Company.

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

Mine	2011 Tonnes	2011 % of Total Production	2010 Tonnes	2010 % of Total Production	2009 Tonnes	2009 % of Total Production
			(in millions of tonnes)[1]			
Coking Coal						
Sibirginsky Open Pit	2.5		2.1		1.4	
Tomusinsky Open Pit	1.8		2.0		1.3	
V.I. Lenina Underground	1.4		1.3		1.3	
Sibirginskaya Underground	0.5		1.1		0.4	
Olzherassky Open Pit	0.6		0.6		0.5	
Total Coking Coal	6.8	47.9%	7.7	50.6%	5.0	51.7%
Steam Coal						
Krasnogorsky Open Pit	3.2		3.3		1.8	
Sibirginsky Open Pit	0.9		0.8		0.7	
Olzherassky Open Pit	0.5		0.5		0.0	
Olzherasskaya Novaya Underground	0.2		0.4		1.0	
Tomusinsky Open Pit	0.3		0.0		0.0	
Total Steam Coal	5.1	35.9%	5.0	35.6%	3.6	37.3%
Anthracite						
Krasnogorsky Open Pit	2.3		2.0		1.1	
Sibirginsky Open Pit						
Olzherassky Open Pit						
Olzherasskaya Novaya Underground						
Tomusinsky Open Pit						
Total Anthracite	2.3	16.2%	2.0	13.8%	1.1	11.0%
Total Coal	14.2	100%	14.0	100%	9.6	100%

(1) Volumes are reported on a wet basis.

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

Coal type	Region	2011	2010
		(in thousands of tonnes)	
Coking coal	Russia	1,615.2	1,968.6
	Asia	428.5	185.8
	CIS	378.9	164.0
	Europe	0.0	22.1
Total		2,422.6	2,340.5
Anthracite	Europe	1,266.5	573.0
	Asia	311.9	20.2
	CIS	78.8	91.1
	Russia	38.7	63.2
	Other	28.1	38.5
	Middle East(1)	25.4	44.0
Total		1,749.4	830.0
PCI	Asia	1,042.7	301.3
	Europe	663.0	142.5
	Middle East(1)	220.2	11.6
	Other	33.0	0.0
	CIS	9.8	0.0
Total		1,968.7	455.4
Steam coal	Russia	265.9	279.3
	Middle East(1)	131.6	344.0
	CIS	96.5	332.5
	Europe	66.6	689.7
	Asia	0.0	318.9
	Other	0.0	15.4
Total		560.6	1,979.8
Middlings	Russia	33.0	0.0
	Europe	9.5	0.0
Total		42.5	0.0
Total		6,743.8	5,605.7

(1) Includes Turkey only.

Bluestone mines

Coal was first discovered in West Virginia in the mid-1700s, and it is part of a coal-rich area known as Central Appalachia, which comprises West Virginia, the eastern part of Kentucky and the southwestern part of Virginia. Presently, West Virginia is the largest coal producing state in the United States east of the Mississippi River and accounts for 10% of the nation s production.

Our Bluestone mines are located in McDowell and Wyoming counties in southern West Virginia, near the city of Beckley. West Virginia coal areas are located within the central portion of the Appalachian Plateau physiographic province, which is a broad upland that extends from Alabama through Pennsylvania. The mines are organized around three mining complexes: Keystone No. 1 and No. 2 (collectively called the **Keystone**), Justice Energy and Dynamic Energy, all of which are located in close proximity to each other. Together, the mining complexes comprise four active surface mines and four active underground mines.

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The table below summarizes ROM coal production of our Bluestone mines by mine and type of coal for the periods indicated (including only post-acquisition volumes).

Mine	2011 Tonnes	2011 % of Total Production	2010 Tonnes	2010 % of Total Production	2009 Tonnes	2009 % of Total Production
			(in millions of tonnes)[1]			
Coking Coal						
Keystone	2.3		2.0		1.1	
Justice Energy	1.0		1.0		0.6	
Dynamic Energy	1.6		1.0		0.6	
Total Coking Coal	4.9	90.7%	4.1	86.1%	2.3	94.0%
Steam Coal						
Dynamic Energy	0.2		0.3		0.1	
Keystone	0.1		0.2		0.0	
Justice Energy	0.2		0.1		0.0	
Total Steam Coal	0.5	9.3%	0.7	13.9%	0.1	6.0%
Total Coal	5.4	100%	4.7	100%	2.4	100%

(1) Volumes are reported on a wet basis.

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

Coal type	Region	2011	2010
		(in thousands of tonnes)	
Coking coal	Europe	1,224.1	1,142.0
	United States	426.0	324.1
	Asia	402.7	186.7
	CIS	263.2	225.3
	Other	248.5	112.5
	Middle East[1]	75.2	84.8
Total		2,639.7	2,075.4
Steam coal	United States	565.7	358.1
Total		565.7	358.1
Total		3,205.4	2,433.5

(1) Includes Turkey only.

The mines in the Keystone complex produce premium low-volatile coking coal. Presently, the complex includes two active surface mines and three active underground mines, as set out in the table below. Seam thickness ranges from a few centimeters to 1.8 meters. Coal from the mines

is hauled by dump truck directly to the complex s preparation plant for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of 28,328 hectares, of which 4,975 hectares are owned, 7,910 hectares are leased under long term leases expiring from 2031 to 2032 and 15,443 hectares are leased in perpetuity.

The mines in the Justice Energy complex produce mid-volatile coking coal. Presently, the complex includes one active surface mine, as set out in the table below. Seam thickness ranges from a few centimeters to 1.52 meters. Coal from the mine is hauled by dump truck directly to the complex s preparation plant (which is leased

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from Natural Resource Partners) for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of 7,485 hectares, of which 602 hectares are owned, 1,334 hectares are leased under long term leases expiring from 2018 to 2019 and 5,549 hectares are leased in perpetuity.

The mines in the Dynamic Energy complex produce high-volatile coking coal. Presently, the complex includes an active surface mine and an active underground mine, as set out in the table below. Seam thickness ranges from a few centimeters to 2.1 meters, with the majority of seams being more than one meter thick. Coal from the mines is hauled by dump truck directly to the complex s preparation plant (which is leased from Natural Resource Partners) for washing and is then dispatched to its rail loadout facility, which is served by the Norfolk Southern Railway. The complex is comprised of approximately 2,980 hectares, which are leased in perpetuity.

The table below sets forth certain information regarding each of our active Bluestone mines:

Complex	Mines	Mining Method[1]	Life of Mine	Mining Permit Expiration Dates[2]	Status[3]	Year Production Commenced
Keystone	Job 32	Mountain top removal and contour	2012	June 2016, January 2015	In production	2001
	Job 39	Mountain top removal, contour and highwall	2030	December 2011[4], March 2013	In production	2001
	Mine 58	Room and pillar	2016	October 2013, September 2013	In production	1998
	Mine 65	Room and pillar	2014	October 2013, January 2013	In production	1998
	Spider Ridge	Room and pillar	2013	October 2014, January 2015	In production	2011
Justice Energy	Job 38	Mountain top removal	2012	August 2012, August 2013	In production	1982
Dynamic Energy	Job 30	Mountain top removal	2015	May 2012, April 2012	In production	1997
	Ben s Creek 1 (Frontier)	Room and pillar	2014	December 2012, June 2015	In production[5]	2007

(1) Mountain top removal and contour mining are surface mining methods. Room and pillar is an underground mining method. Highwall mining is a specific method of mining which we consider to be an underground mining method.

(2) Expiration dates listed for the following permits issued by the West Virginia Department of Environmental Protection: (1) Article 3 Surface Mining Permit and (2) National Pollution Discharge Elimination System (NPDES) Article 11 402 Permit.

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

(4) The permit expired in December 2011. We applied for the renewal of the permit to WVDEP within the timeframe required by the law. Due to the lack of resources at the WVDEP, a decision on its application was delayed. It is not a violation of law to continue operations during the pendency of the renewal application. We expect the permit to be renewed.

(5) Ben s Creek 1 was an existing mine that we restarted in 2011.

Coal is transported from our West Virginia mining complexes to customers by means of railways, trucks, barge lines and ocean-going ships from terminal facilities. Most of the Bluestone production is shipped via Norfolk Southern Railway, so our West Virginia operations are dependent on the capacity of, and its relationship with, Norfolk Southern Railway. These shipments either go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2010, all exports of our West Virginia coal were transported through the port of Norfolk, Virginia. In April 2011, we began exporting coal through the port of New Orleans by trucking coal to a local river terminal and transporting it via barge down the Mississippi River to the port.

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Most of the coal produced at the Bluestone mines is washed. Some coal extracted from the surface mines is sufficiently clean to bypass the coal washing process. This coal is either blended with washed coal or other clean mined material from different seams to produce a metallurgical quality product. Coal is hauled from the mines to the coal washing facilities by truck.

Coal washing plants

We operate five coal washing plants and one processing unit in Russia: four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass and one coal washing plant located near Yakutugol.

Our four coal washing plants and one processing unit located near our coal mines in Southern Kuzbass have an aggregate annual capacity of approximately 18.0 million tonnes of ROM coal. These are Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. These washing plants have aggregate storage capacity for saleable products of 131,000 tonnes, of which 45% is covered storage.

Neryungrinskaya Washing Plant located near the Neryungrinsky Open Pit has an annual capacity of 9.0 million tonnes or a monthly capacity of 750,000 tonnes. The plant produces washed coking coal and unwashed steam coal for export and for domestic sale. In December 2010, three out of thirty thickeners at Neryungrinskaya Washing Plant collapsed. There were no injuries but the collapse led to the suspension of works at the washing plant. We took measures to restore the thickeners. Two of three sections of the washing plant were re-launched in February 2011 and the remaining section in the middle of July 2011.

All of the coal feedstock enriched by our washing plants in 2011 (26.0 million tonnes) was supplied by our own mining operations.

We are also constructing one modular seasonal washing plant for the Elga coal deposit, which will operate in the warmer months of April to October only, with a seasonal capacity of 2.0 million tonnes of coal.

For our Bluestone mining operations we have four coal washing plants as follows:

Complex	Coal Washing Plant	Capacity (short tons per year)	Status	Year Commissioned
Keystone	KS1	2,000,000[1]	Temporarily idled in February 2011 due to excess capacity but under care and maintenance	1920s, 1977
	KS2	3,250,000	In use	2010
Justice Energy	Red Fox[2]	1,900,000	In use	2006
Dynamic Energy	Coal Mountain[2]	1,900,000	In use, but underutilized; awaiting commencement of production at new mines	2007

(1) The plant also has a thermal dryer.
(2) Contracted pursuant to a long-term agreement with Natural Resources Partners and Taggart. The plant is operated by Taggart with its own personnel.

Investments in coal companies

We own 16.13% of Mezhdurechye OAO, a Russian coal producer whose production volume accounted for 5.5% of Russian coking coal output and 1.7% of Russian total coal output in 2011, according to the Central Dispatching Department.

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Coke and chemical products production

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

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

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

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

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

	2011	2010	2009
	(coke and chemical products in thousands of tonnes) (coke gas in millions of cubic meters)		
Mechel Coke			
Coke (6% moisture)	2,552	2,614	2,296
Chemical products	142	133	120
Coke gas	833	870	729
Moscow Coke and Gas Plant			
Coke (6% moisture)	1,149	1,270	937
Chemical products	53	50	40
Coke gas	463	492	403
Total			
Coke (6% moisture)	3,701	3,884	3,233
Chemical products	195	183	160
Coke gas	1,296	1,362	1,132

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

	2011	2010	2009
	(in thousands of tonnes)		
Coke	1,042	1,151	845
Chemical products	191	171	117

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

Production Line	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(coke and chemical products in thousands of tonnes) (coke gas in millions of cubic meters)		
Coke (6% moisture)	1,228	93.6%	
Chemical products	56	93.6%	
Coke gas	495	93.6%	

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

Production Line	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
		(in thousands of tonnes)	
Coke (6% moisture)	3,175	80.4%	515

Our own production facilities purchase a substantial majority of our coke production. For the years ended December 31, 2011, 2010 and 2009, purchases of our coke by our own production facilities amounted to 2.3 million tonnes, 2.5 million tonnes and 2.2 million tonnes, respectively, which represented 69%, 68% and 72% of our total coke sales volumes (including intra-group sales) for those periods.

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

Iron ore and concentrate production

Our iron ore business includes three operational iron ore mines: Korshunovsky Open Pit, Rudnogorsky Open Pit and Tatyaninsky Open Pit, as well as a project mine, Krasnoyarovsky Open Pit. We also operate Korshunovsky concentrating plant located outside of the town of Zheleznogorsk-Ilimsky, 120 kilometers east of Bratsk in the Irkutsk region. Korshunovsky Open Pit is located near the concentrating plant, Rudnogorsky Open Pit is located about 85 kilometers to the northwest of the concentrating plant, and Tatyaninsky Open Pit is located about 30 kilometers to the north of the concentrating plant. We have operated these iron ore mines and the concentrating plant since 2003 when we acquired Korshunov Mining Plant. All three mines produce a magnetite ore (Fe_3O_4). The concentrating plant produces iron ore concentrate with a standard iron fraction of 62%. All product is shipped by rail to domestic customers or to seaports for export sales. All of the sites are served by regional public highways and a nearby federal motorway. The area is served by the Baikal-Amur Mainline, which connects the Trans-Siberian main railway with China and Yakutia.

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The table below sets forth the subsoil licenses used by our iron ore mines, all of which are held by our subsidiary Korshunov Mining Plant, and the expiration dates thereof.

Mine	License (plot)	Area (sq. km)	Mining Method	License Expiration Date	Status[1]	Year Production Commenced	Surface Land Use Rights
Korshunovsky Open Pit	14051 (Korshunovsk)	4.2	Open pit	June 2014	In production	1965	Lease
Tatyaninsky Open Pit	02625 (Tatyaninsk)	1.3	Open pit	June 2012	In production	1986	Lease
Rudnogorsky Open Pit	14052 (Rudnogorsk)	5.1	Open pit	June 2014	In production	1984	Ownership
Krasnoyarovsky Open Pit (project)	13838 (Krasnoyarovsk)	3.0	Open pit	July 2015	Development	n/a	

(1) In production refers to sites that are currently producing iron ore. Development refers to sites where preliminary work is being carried out.

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

	2011		2010		2009	
Mine	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)	Tonnes	Grade (% Fe)
	(in millions of tonnes)[1]					
Korshunovsky Open Pit	6.5	25.6%	5.0	26.9%	5.7	25.4%
Rudnogorsky Open Pit	6.1	31.3%	6.0	32.5%	5.6	31.5%
Tatyaninsky Open Pit	0.2	27.4%	0.1	27.8%	0.0	28.7%
Total ore production	12.8	28.2%	11.1	29.0%	11.3	28.5%
Iron ore concentrate production	4.5	62.5%	4.2	62.2%	4.2	62.4%

(1) Volumes are reported on a wet basis.

In August 2011, we obtained the subsoil license for the Pionerskoye iron ore deposit in Yakutia in an auction held by the Federal Agency for Subsoil Use at a cost of 330 million rubles.

In March 2012, we obtained subsoil licenses for the Sutamskaya iron ore area and the Sivaglinskoye iron ore deposit in Yakutia in tenders held by the Federal Agency for Subsoil Use at a cost of approximately 91 million rubles and 140 million rubles, respectively.

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The table below sets forth the subsoil licenses used by our iron ore deposits, all of which are held by our subsidiary Yakutugol, and the expiration dates thereof.

Deposit	License (plot)	Area (sq. km)	Mining Method	License Expiration Date	Status	Year Production Commenced	Surface Land Use Rights
Pionerskoye	03034 (Pionersk)	9.95	Open pit	August 2031	No activity	n/a	
Sivaglinskoye	03153 (Sivaglinsk)	2.2	Open pit	March 2022	No activity	n/a	
Sutamskaya area	03158 (Sutamskaya area)	731.3	Open pit	March 2037	No activity	n/a	

Limestone production

The Pugachevsky limestone quarry is an open pit mine located approximately nine kilometers southwest of Beloretsk in the Ural Mountains. The mine has a railway spur connected to the Russian rail system, which is controlled by Russian Railways. The quarry was developed in 1951 to support Beloretsk Metallurgical Plant s steel-making facilities, which are currently closed. The Pugachevsky Open Pit, which we acquired in 2002, was owned by our Beloretsk Metallurgical Plant until the second half of 2011. In the second half of 2011, a 100% interest in Pugachevsky Open Pit was transferred to our subsidiary Mechel Materials. The current subsoil license is valid until January 2014.

The quarry produces both high-grade flux limestone for use in steel-making and ferronickel production and aggregate limestone for use in road construction. The flux limestone and aggregate limestone are the same grade of limestone, but they are produced in different fraction sizes, which determine their suitability for a particular use. In 2011, approximately 66.2% of the limestone produced at the Pugachevsky Open Pit was used internally as auxiliary, with 48.2% shipped to Chelyabinsk Metallurgical Plant, 16.1% shipped to Southern Urals Nickel Plant, 1.4% to Izhstal, 0.5% to Beloretsk Metallurgical Plant, approximately 11.8% sold to third parties, and approximately 22.0% remained in the warehouse and was used for internal needs of the quarry. We are capable of internally sourcing 100% of the limestone requirements of our steel operations.

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

	2011	2010	2009
	(In thousands of tonnes)		
Limestone production	2,105	1,895	1,865

Sales of mining products

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

Product	2011	2010	2009	2011	2010	2009
	(In thousands of tonnes[1])			(% of total sales, including intra-group)		
Coking coal concentrate[2]	9,643.0	8,292.1	4,848.4	77.0%	73.9%	67.1%
Steam coal[2]	3,156.0	4,223.7	8,476.5	80.1%	78.5%	93.5%
Anthracite and PCI	3,990.4	1,879.3	391.0	92.5%	86.7%	56.1%
Iron ore concentrate	2,711.1	3,283.1	3,786.7	61.6%	83.9%	93.2%
Coke	1,041.7	1,150.8	845.2	31.3%	31.0%	27.1%
Chemical products	191.5	171.3	116.6	98.2%	100.0%	100.0%

(1) Includes resale of mining products purchased from third parties.
(2) Includes only post-acquisition volumes of Bluestone.

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The following table sets forth revenues by product, as further divided between domestic sales and exports (including as a percentage of total mining segment revenues) for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 23 to our annual consolidated financial statements included herein.

	2011		2010		2009	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Coking coal concentrate	2,223.4	53.7%	1,457.5	47.8%	538.3	31.4%
Domestic Sales	17.2%		21.8%		35.5%	
Export	82.8%		78.2%		64.5%	
Steam coal	189.6	4.6%	357.8	11.7%	634.0	37.0%
Domestic Sales	68.4%		25.8%		15.1%	
Export	31.6%		74.2%		84.9%	
Anthracite and PCI	718.2	17.3%	296.9	9.7%	28.5	1.7%
Domestic Sales	1.1%		6.4%		19.1%	
Export	98.9%		93.6%		80.9%	
Middlings	91.1	2.2%	71.1	2.3%	35.3	2.1%
Domestic Sales	89.4%		100.0%		100.0%	
Export	10.6%		0.0%		0.0%	
Coke	374.7	9.1%	360.0	11.8%	138.7	8.1%
Domestic Sales	54.7%		72.8%		94.5%	
Export	45.3%		27.2%		5.5%	
Chemical products	76.5	1.8%	48.5	1.6%	22.6	1.3%
Domestic Sales	70.8%		68.3%		63.2%	
Export	29.2%		31.7%		36.8%	
Iron ore concentrate	370.1	8.9%	338.8	11.1%	233.0	13.6%
Domestic Sales	46.7%		40.0%		33.0%	
Export	53.3%		60.0%		67.0%	
Other[(1)]	96.4	2.3%	120.4	3.9%	82.9	4.8%
Total	4,139.9	100.0%	3,050.9	100.0%	1,713.2	100.0%
Domestic Sales	27.0%		34.4%		36.4%	
Export	73.0%		65.6%		63.6%	

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

Marketing and distribution

Our sales and distribution activities in relation to Russian sales are conducted by Mechel Mining Trading House, based in Moscow, Russia. Prior to incorporation of Mechel Mining Trading House in May 2011 our mining products were marketed domestically primarily through Mechel Trading House. Our sales and distribution activities in relation to export sales are conducted by Mechel Carbon, based in Baar, Switzerland. We generally do not involve traders in the sales and distribution of our mining products and we have had long-standing relationships with the end users of our mining products. In some cases, although we deal directly with the end user, the sales are made to the end user s authorized agent, such as Ducalion (for Metinvest) and Sumitomo Corporation and/or Sojitz (for example for Nippon Steel and Taiheiyo Cement).

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

Region[1]	2011	2010	2009
Russia	24.8%	32.4%	34.3%
Other CIS	13.5%	8.1%	1.2%
Europe	17.2%	18.1%	17.1%
Asia	35.4%	35.2%	37.1%
Middle East[2]	3.4%	2.9%	4.8%
United States	2.1%	2.1%	2.0%
Other	3.6%	1.2%	3.5%
Total	100%	100%	100%

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

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 34.1% of our mining segment sales in 2011.

Customer	% of Total Mining Segment Sales	Product	% of Total Products Sales
EvrazHolding	9.4%	Coking coal concentrate	9.9%
		Iron ore concentrate	45.6%
Ducalion Trading	9.2%	Coking coal concentrate	17.0%
		Anthracite and PCI	0.4%
ArcelorMittal	8.8%	Coking coal concentrate	8.7%
		Anthracite and PCI	24.0%
		Coke	0.3%
ThyssenKrupp	3.4%	Coking coal concentrate	4.2%
		Anthracite and PCI	4.8%
		Coke	3.7%
JFE Steel	3.3%	Coking coal concentrate	4.0%
		Anthracite and PCI	6.5%

Sales by Russian subsidiaries

Domestic sales

We ship our coking coal concentrate from our coal washing facilities, located near our coal mines and pits, by railway directly to our customers, including steel producers. Our largest domestic customer for our coking coal concentrate was Evraz, accounting for 9.9% of our total coking coal concentrate sales and 5.3% of our total mining segment sales in 2011.

Pursuant to a directive from the FAS dated August 14, 2008, we entered into long-term coking coal supply contracts with some of our major domestic customers. These contracts provide for the supply of coking coal concentrate under a fixed price based on the price of premium hard coking coal under one-year contracts under FOB terms from Australian ports, excluding the costs of transshipment and rail transportation, with the application of a coefficient representing the quality of the coal concentrate. Previously, the delivery terms for most of our major domestic

customers provided for sale at spot market prices. The long-term contracts were

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entered into with MMK, EvrazResurs, Severstal, KOKS and Metalltrade for terms of four and five years for a total annual delivery volumes of four to five million tonnes of coking coal. However, MMK, one of our major domestic customers with which we have entered into a five-year contract for delivery of a total of 12 million tonnes of coking coal, has filed a lawsuit in a Russian court seeking invalidation of its five-year contract. Metalltrade also has filed a lawsuit seeking termination of its five-year contract. Both of the petitions were dismissed by the court. See Item 8. Financial Information Litigation Commercial litigation. In general, the long-term contracts executed in accordance with the FAS directive do not guarantee sale of the volumes fixed under the contracts. In practice, customers may refuse to purchase products under these contracts and we have no means to influence them to take the contracted volumes in full.

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

We ship our steam coal from our warehouses by railway directly to our customers, which are predominantly electric power stations. Our supply contracts for steam coal are generally concluded with customers on a long-term basis with quantities and prices either fixed for the whole term or adjusted monthly. Some of our steam coal is consumed within our group; for example, sales of steam coal and middlings (lower-quality coal) from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were $23.8 million in 2011. In total, 969 million tonnes of steam coal was sold within our group, including coal purchased from third parties. Far Eastern Generating Company OAO is our largest domestic customer of steam coal, accounting for 14.3% of our total steam coal sales and 0.7% of our total mining segment sales in 2011.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, EvrazHolding, accounted for 45.6% of our total iron ore concentrate sales and 4.1% of our total mining segment sales in 2011. We set our prices on a monthly or quarterly basis as agreed with the customers.

The majority of coke is sold domestically to our subsidiaries Chelyabinsk Metallurgical Plant, Southern Urals Nickel Plant, Bratsk Ferroalloy Plant and Tikhvin Ferroalloy Plant, which accounted for 71% of our total coke sales (including intra-group sales) by volume in 2011, including coke purchased from third parties. Major third-party customers include cast iron and steel plants in the Central Region of Russia. Sales in Russia are conducted pursuant to framework agreements with monthly adjustments of quantities and prices.

Our subsidiary Mecheltrans is a railway freight and forwarding company, which owns its own rail rolling stock, consisting of 409 open cars and 213 pellet cars, leases 126 open cars and has 7,808 open cars under equipment finance leases. Mecheltrans transported domestically approximately 44.5 million tonnes of our cargo in 2011, approximately 66% of which was comprised of coal and iron ore.

Export sales

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

In 2011, the largest foreign customer of our mining segment was Ducalion Trading, accounting for 9.2% of our total mining segment sales. Ducalion Trading purchases consisted of coking coal concentrate and anthracite and PCI.

We were Russia s largest exporter of coking coal concentrate in 2011, according to RasMin. Our exports of coking coal concentrate primarily go to Ukraine, China, Japan, South Korea and India. In 2011, Ducalion Trading Ltd., ArcelorMittal, ThyssenKrupp, POSCO and JFE Steel Co. were our largest foreign customers of coking coal concentrate, accounting for 36.5% of our total coking coal concentrate sales and 19.6% of our total mining segment sales. Shipments are made by rail to sea ports and further by sea, except for shipments to Ukraine, Slovakia and Poland that are made only by rail.

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Our exports of steam coal are primarily to Turkey, Japan, Kazakhstan and Europe, which together accounted for 31.4% of our total steam coal sales and 1.4% of our total mining segment sales in 2011. In 2011, our largest foreign customers of steam coal were Enercom Company Ltd. in Turkey, Sumitomo and Sojitz Corporation in Japan, Deven J.S. Co. in Europe and Aluminium of Kazakhstan.

Our exports of anthracite and PCI are primarily to Europe, China, Japan, India and Turkey, which together accounted for 87.3% of our total anthracite and PCI sales and 15.1% of our total mining segment sales in 2011. In 2011, our largest foreign customers of anthracite and PCI were ArcelorMittal in Europe, JFE Steel Co. in Japan, Rizhao Xiangyu Trade Co. in China, ThyssenKrupp in Germany and Eregli Demir ve Celik Fabrikalari T.A.S. in Turkey.

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

We export coke primarily to Turkey, Brazil, Europe and Kazakhstan, which together accounted for 43.1% of our total coke sales and 3.9% of our total mining segment sales in 2011. We also sell coke breeze to metallurgical plants in Western Europe.

Our Port Posiet processed 4.0 million tonnes of coal in 2011. From Port Posiet we ship primarily our steam coal and coking coal concentrate to Japan, Korea and China. While the port is undergoing upgrade and modernization, its current capacity is approximately 4.0 million tonnes of annual cargo-handling throughput and its warehousing capacity is limited to 100 thousand tonnes per month for one-time storage of no more than two grades of coal. The port s proximity to roads and rail links to key product destinations and transshipment points in China and Russia make it a cost-effective link in the logistical chain for bringing our Yakutugol coal production to market.

In 2011, we used annual contracts for export sales of coking and steam coal, except for sales to Chinese customers. Coal not shipped under annual contracts was sold on the spot market.

We also sold iron ore concentrate to customers in China during 2011, which accounted for 53.3% of our total iron ore concentrate sales and 4.8% of our total mining segment sales in 2011. We ship iron ore concentrate to China by rail.

Sales by U.S. subsidiaries

Bluestone mining business sold 3.4 million tonnes of coking and steam coal in 2011, 71% of which was sold to the export market. Substantially all of the coal was sold on the spot market. Coal is transported from the mining complexes to customers by means of railroads, trucks, barge lines and ocean-going ships from terminal facilities. A major portion of production is shipped via the Norfolk Southern Railroad, so our Bluestone operations are dependent on the capacity of and our relationship with Norfolk Southern Railroad. These shipments either go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2011, Bluestone exports went through the port of Norfolk, Virginia and the port of New Orleans, Louisiana.

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Market share and competition

Coal

According to AME, we were among the 10 largest metallurgical coal exporters in the world in 2011. The following table lists the major world metallurgical coal exporters and their shares of the total metallurgical coal international trade in 2011.

Company	Metallurgical Coal Export (Millions of Tonnes)	% of Total Internationally Traded Metallurgical Coal
BHP Billiton Limited	28	11%
Mitsubishi Corporation	21	8%
Teck Resources Limited	20	8%
Anglo American plc	15	6%
Xstrata plc	14	5%
Rio Tinto Group	12	5%
Walter Energy Inc.	11	4%
Peabody Energy Corporation	8	3%
Mechel OAO	7	3%
New World Resources	6	2%
Other	120	46%
Total Metallurgical Coal Exports	262	100%

Source: AME.

According to Central Dispatching Department, in 2011 the Russian coal mining industry was represented by 205 companies, which operated 84 underground mines and 121 open pit mines. As a result of the privatization of 1990s and subsequent mergers and acquisitions, the Russian coal mining industry has become more concentrated. Based on the Central Dispatching Department s data, the ten largest coal mining companies in Russia produced 74% of the overall coal production volume in 2011.

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According to data from the Central Dispatching Department, in 2011, we were the largest coking coal producer in Russia, with a 20.2% share of total production by volume, and we had a 6.6% market share with respect to overall Russian coal production by volume. The following table lists the main Russian coking coal producers in 2011, the industrial groups to which they belong, their coking coal production volumes and their share of total Russian production volume.

Group	Company	Coking Coal Production (Thousands of Tonnes)	% of Coking Coal Production by Volume
Mechel OAO	Southern Kuzbass Coal Company OAO	6,326	10.2%
	Yakutugol Holding Company OAO	6,249	10.1%
	Mechel Total	12,575	20.2%
Sibuglemet Holding	Polosukhinskaya Mine OAO	3,062	4.9%
	Mezhdurechye OAO[1]	3,433	5.5%
	Antonovskaya Mine ZAO	726	1.2%
	Bolshevik Mine OAO	422	0.7%
	Sibuglemet Total	7,641	12.3%
Severstal OAO	Vorkutaugol OAO	7,156	11.5%
Evraz Group S.A.	Yuzhkuzbassugol Coal Company ZAO	6,303	10.1%
Raspadskaya OAO	Raspadskaya OAO	6,251	10.1%
UMMC	Kuzbassrazrezugol Coal Company OAO	5,038	8.1%
MMK OAO	Belon OAO	4,036	6.5%
Stroyservis ZAO	Berezovsky Mine OOO	1,485	2.4%
	Barzasskoye Partnership OOO	1,218	2.0%
	Shestaky Mine OAO	835	1.3%
	Mine No. 12 OOO	462	0.7%
	Stroyservis Total	2,515	4.0%
Other		10,604	17.1%
Total		62,118	100.0%

Source: Central Dispatching Department.

(1) We own 16.13% of Mezhdurechye OAO.

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According to data from the Central Dispatching Department, in 2011, we were the fourth largest steam coal producer in Russia in terms of volume, with a 3.5% share of total production. The following table lists the main Russian steam coal producers in 2011, the groups to which they belong, their steam coal production volumes and their share of total Russian steam coal production volume.

Group	Company	Steam Coal Production (Thousands of Tonnes)	% of Steam Coal Production by Volume
SUEK OAO	SUEK OAO (Kemerovo region)	26,359	9.6%
	SUEK OAO (Krasnoyarsk Krai)	28,289	10.3%
	Vostsibugol OOO (Irkutsk region)	13,567	4.9%
	SUEK OAO (Republic of Khakasia)	10,489	3.8%
	SUEK OAO (Tugnuysky open pit)	10,361	3.8%
	Primorskugol OAO	5,692	2.1%
	SUEK OAO (Zabaikalsk Krai)	5,500	2.0%
	Urgalugol OAO	3,229	1.2%
	Vostsibugol OOO (Irbeysky open pit)	2,233	0.8%
	SUEK Total	105,718	38.5%
UMMC	Kuzbassrazrezugol Coal Company OAO	41,948	15.3%
SDS-Ugol Holding Company OAO	Chernigovets ZAO	5,905	2.2%
	Listvyazhnaya Shaft Mine OOO	3,653	1.3%
	Salek ZAO	3,000	1.1%
	Yuzhnaya Shaft Mine OAO	2,316	0.8%
	UK Prokopyevskugol OOO	163	0.1%
	Kiselevsky Open Pit Mine OAO	2,092	0.8%
	Kiselevskaya Shaft Mine OOO	215	0.1%
	SDS-Ugol Total	17,343	6.3%
Mechel OAO	Southern Kuzbass Coal Company OAO	7,832	2.9%
	Yakutugol Holding Company OAO	1,796	0.7%
	Mechel Total	9,628	3.5%
Russian Coal Co	UK Stepnoy Open Pit Mine OOO	3,405	1.2%
	Amursky Coal OOO	3,164	1.2%
	Zadubrovsky Open Pit Mine OOO	1,132	0.4%
	Russian Coal Co Total	7,701	2.8%
Severstal OAO	Vorgashorskaya-2 Shaft Mine ZAO	3,726	1.4%
Sibuglemet Holding	Mezhdurechye OAO	2,232	0.8%
	UK Yuzhnaya OAO	915	0.3%
	Sibuglemet Total	3,147	1.1%
Evraz Group S.A.	Yuzhkuzbassugol Coal Company ZAO	2,965	1.1%
Stroyservis ZAO	Berezovsky Mine OOO	406	0.1%
	Permyakovsky Open Pit Mine OOO	1,330	0.5%
	Barzasskoye Partnership OOO	5	0.0%
	Mine No. 12 OOO	927	0.3%
	Shestaky Mine OAO	71	0.0%
	Stroyservis Total	2,737	1.0%
Other		79,627	29.0%
Total		274,541	100.0%

Source: Central Dispatching Department.

In the domestic coal market, we compete primarily on the basis of price, as well as on the basis of the quality of coal, which in turn depends upon the quality of our production assets and the quality of our mineral reserves. Competition in the steam coal market is also affected by the fact that most steam power stations were

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built near specific steam coal sources and had their equipment customized to utilize the particular type of coal produced at the relevant local source. Outside of Russia, competition in the steam coal market is largely driven by coal quality, including volatile matter and calorie content.

According to the U.S. Department of Energy/Energy Information Administration, the total production of coal in the United States in 2011 was 1,089.2 million short tons. Bluestone s share of total production was 0.5%.

Iron ore

The Russian iron ore market is generally characterized by high demand and limited sources of supply, with product quality as the main factor driving prices. According to Metal Expert, the market is dominated by relatively few producers, with the top three mining groups being Metalloinvest, the Evraz Group and Severstal-Resurs, representing 69.4% of total production of iron ore concentrate. We were sixth in production volume in 2011 with 4.5 million tonnes of iron ore concentrate, representing 4.3% of total production of iron ore concentrate in Russia.

Mineral reserves (coal, iron ore and limestone)

Coal and iron ore

Our coal and iron ore reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our coal and iron ore reserves consist of proved and probable reserves.

IMC Group Consulting Ltd (**IMC**), an independent international consulting firm, has independently assessed our coal and iron ore assets by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine plans relating to productivity, production, operating costs, capital expenditures and revenues. In IMC s view, all coal and iron ore reserves estimates have been substantiated by evidence obtained by it in site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by us to IMC.

IMC confirms that our coal and iron ore reserves estimates are presented in accordance with the criteria for internationally recognized reserve and resource categories of the Australasian Code for Reporting Mineral Resources and Ore Reserves (as amended) published by the Joint Ore Reserves Committee (**JORC**) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the **JORC Code**), and meet the standards set by the SEC in its Industry Guide 7. Coal and iron ore reserve estimates thus represented are referred to as JORC Ore Reserves.

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

In previous years, we reported our reserves under the standards of United States Geological Survey Circular 831 (**USGS**). As of December 31, 2011, we began reporting our coal and iron ore reserves and resources under

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the JORC Code. Both USGS and JORC Code comply with the requirements set out in the SEC Industry Guide 7. Given the global nature of the markets in which we operate and the broad international acceptance of JORC reporting standards, we believe that reporting our reserves and resources under the JORC Code provides users of our disclosures with more readily-understandable and transparent information.

Concurrent with adopting JORC reporting standards for our reserves and resources reporting, we are reporting a significant increase in overall reserves of coal. Specifically, coal reserves increased from 1,316.0 million tonnes as at December 31, 2010 to 3,252.9 million tonnes as at December 31, 2011. Out of the total increase in reported reserves of 1,936.9 million tonnes, 1,672.9 million tonnes related to an increase in reported reserves at the Elga coal deposit from 515.5 million tonnes to 2,188.4 million tonnes. During the course of 2011, we completed the life of mine plans for the Elga deposit and as such were able to substantiate additional reserves arising from this mine.

The calculation of our reserves in Russia is based on the expected operational life of each deposit based on life-of-mine plans, which in many cases exceed the relevant license period for the deposit. Russian subsoil licenses are issued for defined boundaries and specific periods, generally about 20 years. Our declared reserves are contained within the current license boundary. Our Russian subsoil licenses expire on dates falling in 2012 through 2033. Our most significant licenses expire between 2012 and 2024. However, in many cases, the life of the deposit is well beyond the license term. Based on Russian law and practice, as evidenced by our experience and publicly available information, including a number of court cases, it is reasonably likely that an incumbent subsoil user will be granted license extension through the end of the expected operational life of the deposit, provided that the licensee is not in violation of the material terms of the license. The cost for the license extension is not substantial. See Regulatory Matters Subsoil Licensing in Russia Extension of licenses. We have already received extension of two of our licenses and intend to extend the licenses for all deposits expected to remain productive subsequent to their license expiry dates. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be adversely affected if we fail to obtain or extend necessary subsoil licenses and mining and other permits or fail to comply with the terms of our subsoil licenses and mining and other permits, Item 3. Key Information Risk Factors Risks Relating to the Russian Federation Legal risks and uncertainties Deficiencies in the legal framework relating to subsoil licensing subject our licenses to the risk of governmental challenges and, if our licenses are suspended or terminated, we may be unable to realize our reserves, which could materially adversely affect our business, financial condition, results of operations and prospects and Regulatory Matters Subsoil Licensing in Russia.

The Bluestone companies mining permits expire in 2012 through 2016. Currently, six of our 45 permits issued by the U.S. National Pollutant Discharge Elimination System (NPDES) are pending renewal with the state of West Virginia following orders from the EPA. See Item 3. Key Information Risk Factors Risks Relating to Other Countries Where We Operate The Bluestone companies are subject to extensive U.S. laws, government regulations and other requirements relating to the protection of the environment, health and safety and other matters and face a highly litigious environment.

As of December 31, 2011, we had coal reserves totaling 3,252.9 million tonnes, of which approximately 83% was coking coal. The table below summarizes coal reserves.

Mines	Proved reserves[1]	Probable reserves[1]	Total	% in Open Pit
	(in thousands of tonnes)			
Yakutugol	1,941,554	491,818	2,433,372	99.5%
Southern Kuzbass Coal Company	564,076	109,447	673,523	65.1%
Bluestone	73,783	72,179	145,962	59.1%
Total	2,579,413	673,444	3,252,857	90.6%

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

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The table below summarizes our reserves by coal type.

Mines	Category	Coking	Steam	Anthracite	Lignite	Total[1]
			(in thousands of tonnes)			
	Proved	1,842,772	15,175	0	83,607	1,941,554
	Probable	491,278	540	0	0	491,818
Yakutugol	Total	2,334,050	15,715	0	83,607	2,433,372
	Proved	195,487	296,526	72,063	0	564,076
	Probable	37,993	57,449	14,005	0	109,447
Southern Kuzbass Coal Company	Total	233,480	353,975	86,068	0	673,523
	Proved	73,783	0	0	0	73,783
	Probable	72,179	0	0	0	72,179
Bluestone	Total	145,962	0	0	0	145,962
	Proved	2,112,042	311,701	72,063	83,607	2,579,413
	Probable	601,450	57,989	14,005	0	673,444
Total		2,713,492	369,690	86,068	83,607	3,252,857

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

The table below sets forth our reserves attributable to our Yakutugol mines as of December 31, 2011.

Mine	Proved reserves	Probable reserves	Total[1][2]	Heat Value[3]	% Sulfur
		(in thousands of tonnes)		(in kcal/kg)	
Neryungrinsky Open Pit[4]	148,541	1,298	149,839	8,200	0.30
Kangalassky Open Pit[5]	83,836	0	83,836	3,837-4,107	0.15-0.85
Dzhebariki-Khaya Underground[5]	11,337	0	11,337	4,490	0.30
Elga Open Pit[6]	1,697,840	490,520	2,188,360	7,500-8,600	0.30
Total	1,941,554	491,818	2,433,372		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $164-$170 per tonne (FCA basis) for coking coal and $44-$57 per tonne (FCA basis) for steam coal.
(3) Heat value is reported on a moisture- and ash-free basis.
(4) Mined coal is processed at the Neryungrinskaya Washing Plant. The average coal recovery factor is estimated to be 64%.
(5) Coal is sold as ROM without processing.
(6) The average coal recovery factor for ROM coal to be mined at Elga Open Pit will not be known until the seam mix and the design of the coal washing plant have been determined.

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The table below sets forth reserves attributable to our Southern Kuzbass mines as of December 31, 2011.

Mine	Proved reserves	Probable reserves	Total[1][2][3][4]	Heat Value[5] (in kcal/kg)	% Sulfur
	(in thousands of tonnes)				
Krasnogorsky Open Pit	158,934	55,642	214,576	5,800	0.40
Olzherassky Open Pit	39,452	27,751	67,203	8,170	0.25
Tomusinsky Open Pit	15,716	3,232	18,948	8,350	0.30
Sibirginsky Open Pit	135,716	2,166	137,882	8,483	0.30
Sibirginskaya Underground	74,619	6,940	81,559	8,441	0.29
V.I. Lenina Underground	29,117	13,716	42,833	8,468	0.33
Olzherasskaya-Novaya Underground	66,292	0	66,292	7,900	0.30
Yerunakovskaya-1 Underground (project)	44,230	0	44,230		
Yerunakovskaya-3 Underground (prospect)[6]	0	0	0		
Yerunakovskaya-2 Underground (prospect)[6]	0	0	0		
Olzherasskaya-Glubokaya Underground (prospect)[6]	0	0	0		
Usinskaya Underground (prospect)[6]	0	0	0		
Total	564,076	109,447	673,523		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $166-$168 per tonne (FCA basis) for coking coal and $53-$64 per tonne (FCA basis) for steam coal.
(3) All mines except Tomusinsky Open Pit are 96.6% owned by us. Tomusinsky Open Pit is 74.5% owned by us. Reserves are presented on an assumed 100% basis.
(4) Mined coal is processed at Krasnogorskaya Washing Plant, Sibir Washing Plant, Tomusinskaya Washing Plant, Kuzbasskaya Washing Plant and Sibirginskaya Processing Unit. The average coal recovery factor at these plants is estimated to be 58.3%, 80.7%, 74.7%, 76.7% and 88.7%, respectively.
(5) Heat value is reported on a moisture- and ash-free basis.
(6) Not considered by IMC in their review because these prospects presently do not have mine plans.

The table below sets forth our reserves attributable to our Bluestone mines as of December 31, 2011.

Complex	Proved reserves	Probable reserves	Total[1][2][3]	Heat Value[4] (in Btu/lb)	% Sulfur
	(in thousands of tonnes)				
Keystone Surface	33,025	30,586	63,611	14,724	0.75
Keystone Underground	10,432	9,131	19,563	14,724	0.75
Justice Energy Surface	3,955	2,321	6,276	14,626	0.97
Justice Energy Underground	3,787	8,619	12,406	14,626	0.97
Dynamic Energy Surface	8,460	7,978	16,438	14,611	1.01
Dynamic Energy Underground	14,124	13,544	27,668	14,611	1.01
Total	73,783	72,179	145,962		

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $150 per tonne (FCA basis) for coking coal and $32 per tonne (FCA basis) for steam coal.
(3) Mined coal is processed at our local washing plants at the Keystone, Justice Energy and Dynamic Energy operations. The average coal recovery factor is estimated to be 44.3%, 53.9% and 51.1%, respectively.

(4) Heat value is reported on a moisture- and ash-free basis.

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As of December 31, 2011, we had iron ore reserves (proved and probable) totaling 258.0 million tonnes at an average iron grade of 28.7%. The table below summarizes iron ore reserves by mine.

Mine	Proved reserves	Probable reserves (in thousands of tonnes)	Total[1][2][3]	Grade (Fe%)[4]
Korshunovsky Open Pit	63,511	45,697	109,208	25.6
Rudnogorsky Open Pit	53,017	37,053	90,070	33.2
Tatyaninsky Open Pit	1,100	873	1,973	24.2
Krasnoyarovsky Open Pit (project)	34,950	21,759	56,709	27.5
Total	152,578	105,382	257,960	28.7

(1) Reserves reported on a wet in-situ basis and include adjustments for loss and dilution modifying factors.
(2) In estimating the reserves, we used $77 per tonne (FCA basis).
(3) All mines are 85.6% owned by us. Reserves are presented on an assumed 100% basis.
(4) The average iron ore recovery factor is estimated to be 81.2%.

Limestone

Our limestone mineral reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our limestone mineral reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our reserves, consisting of proven and probable reserves, meet the requirements set by the SEC in its Industry Guide 7. Information on our limestone mineral reserves has been prepared by our internal mining engineers as of December 31, 2011. To prepare this information our internal mining engineers used resource and reserve estimates, actual and forecast production, operating costs, capital costs, geological plan maps, geological cross sections, mine advance maps in plan and cross section and price projections.

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

The subsoil license for our limestone mineral reserves is issued for defined boundaries and expires in January 2014. Our declared limestone reserves are contained within the current license boundary. Based on Russian law and practice, as evidenced by publicly available information, including a number of court cases, it is reasonably likely that an incumbent subsoil user will be granted a license extension through to the end of the expected operational life of the deposit. License extensions are being granted subject to the licensee not being in violation of the terms of the license. The cost for the license extension is not substantial. See Regulatory Matters Subsoil Licensing in Russia Extension of licenses. We have already received extension of two of our mineral reserves licenses and we intend to extend our license for limestone deposit expected to remain productive subsequent to its license expiry dates. However, license extension is not guaranteed and is to a certain extent subject to the discretion of regulatory authorities.

Therefore, we present our limestone mineral reserves in two categories. Material contained in the production schedule and cash flow that is expected to be mined prior to the license expiration date is referred to as Within Subsoil License Term Reserves and material contained in the production schedule and cash flow that is expected to be mined after the license expiration date is referred to as Outside Subsoil License Term Reserves.

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As of December 31, 2011, we had limestone reserves (proven and probable) totaling 18.4 million tonnes at 55.2% calcium oxide.

Limestone Reserves[1][2][3]	Within Subsoil License Term	Outside Subsoil License Term	Total	Grade (% CaO)
	(In millions of tonnes)			
Pugachevsky Open Pit	3.9	14.5	18.4	55.2

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.
(2) We own 100% of Mechel Materials, which owns 100% of Pugachevsky Open Pit, the holder of the subsoil license for the Pugachevsky limestone quarry. Reserves are presented for the mine on an assumed 100% ownership basis.
(3) In estimating our reserves we use an average price of $5.42 per tonne of commodity limestone and currency conversions are carried out at average official exchange rates of the Central Bank of Russia.

Steel Segment

Our steel segment comprises production and sale of semi-finished steel products, carbon steel long products and specialty steel long products, carbon and stainless flat products, and value-added downstream metal products including wire products, stampings and forgings. Within these product groups, we are further able to tailor various steel grades to meet specific end-user requirements. Our steel segment is supported by our mining segment, which includes iron ore concentrate and coke, and our ferroalloys segment, which includes ferronickel, ferrochrome and ferrosilicon.

Our steel segment has production facilities in Russia, Lithuania, Romania, the United Kingdom and Ukraine. Our total steel output was 5.5 million tonnes in 2009, 6.1 million tonnes in 2010 and 6.1 million tonnes in 2011.

Description of key products

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

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

Long steel products. Long steel products are rolled products used in many industrial sectors, particularly in the construction and engineering industries. They include various types of products, for example, rebar, calibrated long steel products and wire rod, which could be supplied both in bars and coils in a wide range of sizes. Our long products are manufactured at Chelyabinsk Metallurgical Plant, Izhstal and Beloretsk Metallurgical Plant in Russia, Mechel Campia Turzii, Mechel Targoviste and Ductil Steel in Romania, and Invicta Merchant Bar in the United Kingdom.

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

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

Stampings and forgings. Stampings are special parts stamped from metal billets. Forgings are specialty products made through the application of localized compressive forces to metal. Forged metal is stronger than cast or machined metal. Our forgings and stampings are offered on a made-to-order basis according to minimum batches depending on the products sizes. Our product offerings include rollers and axles used in vehicle manufacturing; gears and wheels; bars; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its branches in Izhevsk and Chelyabinsk.

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

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

	2011	2010	2009
	(In thousands of tonnes)		
Pig Iron	3,728	4,149	3,805
Semi-Finished Steel Products, including:	2,046	2,212	1,913
Carbon and Low-Alloyed Semi-Finished Products	1,513	1,783	1,806
Long Steel Products, including:	3,590	3,515	3,099
Stainless Long Products	12	12	22
Alloyed Long Products	329	383	63
Rebar	2,091	1,901	1,536
Wire Rod	597	713	631
Low-Alloyed Engineering Steel	396	341	430
Flat Steel Products, including:	539	443	345
Stainless Flat Products	48	46	31
Carbon and Low-Alloyed Flat Products	491	397	313
Forgings, including:	85	76	49
Stainless Forgings	4	3	2
Alloyed Forgings	53	45	30
Carbon and Low-Alloyed Forgings	24	28	16
Stampings	117	97	61
Wire Products, including:	997	869	627
Wire	774	672	487
Ropes	62	58	41

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Steel manufacturing process and types of steel

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

In BOF steel manufacturing, steel is produced with less than 2% carbon content. The principal raw materials used to produce steel are liquid pig iron and scrap. The molten steel, depending on the products in which it will be used, undergoes additional refining and is mixed with manganese, nickel, chrome, titanium and other components to give it special properties. Approximately 70% of the world s steel output is made in a BOF, most typically in large-scale plants that must produce 3-4 million tonnes per year to be economically efficient.

In EAF steel manufacturing, steel is generally produced from remelted scrap. Heat to melt the scrap is supplied from high-voltage electricity that arcs within the furnace between graphite electrodes and the scrap. This process is suitable for producing almost all steel grades, including stainless steel; however, it is limited in its use for production of high-purity carbon steel. Approximately 29% of world steel output is made in EAFs.

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

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

Steel production facilities

Most of our metallurgical plants have obtained a certificate of quality under ISO international standards. For example, the main manufacturing processes at Beloretsk Metallurgical Plant, Mechel Campia Turzii, Chelyabinsk Metallurgical Plant, Mechel Targoviste, Laminorul Plant, Ductil Steel, Urals Stampings Plant, Donetsk Electrometallurgical Plant, Ramateks and Izhstal are ISO 9001:2008 certified. Donetsk Electrometallurgical Plant, Ductil Steel and wire-drawing workshops No. 1 (TS1) and No. 3 (TOT3) of Mechel Campia Turzii are also certified under environmental protection standard ISO 14001.

Chelyabinsk Metallurgical Plant

Chelyabinsk Metallurgical Plant produces rolled products and semi-finished products for further milling in Russia or our internal needs. Chelyabinsk Metallurgical Plant is sintering production for blast furnaces, BOF/EAF steel mill with rolling production. It produces semi-finished steel products, and flat and long carbon and stainless steel products. Its customer base is largely comprised of customers from the construction, engineering, hardware and ball-bearing industries. We acquired Chelyabinsk Metallurgical Plant in 2001.

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The plant sources all of its coking coal needs from Southern Kuzbass Coal Company and from Yakutugol and most of its iron ore needs from our Korshunov Mining Plant and a majority of its nickel needs from our Southern Urals Nickel Plant. In 2006, coke production and specialty steel production were separated from Chelyabinsk Metallurgical Plant into separate entities, including Mechel Coke, which were wholly-owned subsidiaries of Chelyabinsk Metallurgical Plant. In August 2007, ownership of Chelyabinsk Metallurgical Plant s specialty steel operations was transferred to the Chelyabinsk branch of Urals Stampings Plant. In June 2010, a 100% interest in Mechel Coke was transferred to Mechel Mining.

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Sintering	5,120	89.4%	
Pig Iron	4,300	86.7%	
Steel-making	4,964	98.5%	213
Rolling	4,751	91.0%	

Chelyabinsk Metallurgical Plant produced 4.9 million tonnes of raw steel and 4.3 million tonnes of rolled products in 2011.

In the second half of 2007, we began an upgrade of Chelyabinsk Metallurgical Plant s arc-furnace melting shop No. 6 to increase the slab concaster production capacity to 1.2 million tonnes per year. Danieli & C. Officine Meccaniche S.p.A. (**Danieli**), an Italian supplier of equipment and plants to the metals industry, is the basic equipment provider for the concasting machine and the out-of-furnace processing complex. In July 2010, we comissioned new production complex in arc-furnace melting shop No. 6 which consists of ladle furnace, vacuum degasser and a slab concaster. Currently, the slab concaster is in commercial operation.

In 2008, we initiated construction of a universal rail and structural rolling mill at the Chelyabinsk Metallurgical Plant. The project is aimed at producing new types of large section structural shapes (including beams, angles, rails, channels and special sections) with total output 1.1 million tonnes per annum.

The project will require $665.3 million in capital investments. On June 30, 2008, Chelyabinsk Metallurgical Plant entered into an agreement with Danieli to supply the universal rolling mill. The total amount of the contract is 220.0 million. In order to perform design, construction-and-assembling and pre-commissioning works on the rolling mill, on October 29, 2008, Chelyabinsk Metallurgical Plant signed a contract with the Chinese construction company Minmetals Engineering Co. Ltd. (**Minmetals**). The contract is concluded on a turnkey basis with a total value of $261.0 million.

At present, the construction of an annex to the building of the rolling shop No. 3 is being completed; approximately 85% of the basic technological equipment has been supplied, and assemblage of the equipment has begun. The launch of the universal rolling mill is scheduled for 2012. In December 2011, the blooming concaster No. 5 of the oxygen-converter shop was launched, which should supply the rolling mill with continuous cast billets of a large cross-section, as well as reduce the portion steel poured into ingots.

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We expect that the main target customers for the universal mill products will be Russian Railways and construction companies. On November 13, 2008, Chelyabinsk Metallurgical Plant and Russian Railways signed an agreement for supply of rails for the period until 2030. The annual minimum supply volume is fixed at 400 thousand tonnes of rail. Performance under the agreement is subject to the commissioning of the universal rail and structural steel mill at the Chelyabinsk Metallurgical Plant.

In December 2010, Mechel Materials started the assembling of the main manufacturing equipment of the grinding-mixing complex for Portland blast-furnace slag cement production with 1.6 million tonnes capacity per annum on the premises of Chelyabinsk Metallurgical Plant. The main raw material will be blast furnace slag produced by Chelyabinsk Metallurgical Plant, which will result in non-waste production of pig iron at the facility. This complex will be the first Russian facility producing high-quality Portland blast-furnace slag cement of certain grade (CEMIII/A). Portland blast-furnace slag cement is widely used for production of reinforced concrete goods which are widely used in construction industry. The general contractor is Austrian FMW GmbH. The amount to be invested is estimated at $174.7 million. The commissioning of the grinding-mixing complex is planned for the second quarter of 2012.

Izhstal

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

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Steel-making	351	80.3%	
Rolling	420	86.6%	
Wire products and seized rolling	31	99.9%	

Izhstal produced approximately 281.8 thousand tonnes of raw steel, 363.7 thousand tonnes of rolled products and approximately 31.0 thousand tonnes of wire products and seized rolling in 2011.

In order to improve Izhstal s efficiency, in the second half of 2007 we began the first stage of an upgrade at the Izhstal mill, including the installation of a new modern electric arc furnace with a total capacity of 40 tonnes, an out-of-furnace processing complex and a new concasting machine, in addition to reconstruction of rolling mill No. 250 and the disposal of outdated open-hearth furnaces. The new electric steel-making complex was comissioned in September 2010 and currently the equipment is in commercial operation. Reconstruction of rolling mill No. 250 which had been suspended due to the global financial and economic crisis of 2008-2009 was resumed in October 2010. In September 2011, the rolling mill was commissioned and currently guarantee tests are being carried out. The upgrade process will result in: (1) significant reductions in consumption of metal, natural gas and electric power in rolled product manufacturing, (2) improvements in product quality to meet current international standards and expansion of product range, and (3) environmental improvements.

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Beloretsk Metallurgical Plant

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

Beloretsk Metallurgical Plant s principal production lines include a steel-rolling workshop equipped with a wire mill for production of 5.5-13.5 millimeter wire rod; a number of wire products workshops equipped with drawing, rewinding, wire stranding, cabling and closing machines and heat treatment furnaces, wire annealing and galvanizing, patenting and galvanizing lines; low relaxation prestressed concrete wire and strand lines and a cold rolling line. In 2011, we invested $1.4 million to improve product quality, increase output, reduce production costs and increase profitability. In June 2011, wire products production facilities were transferred to Beloretsk Metallurgical Plant from Izhstal. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Beloretsk Metallurgical Plant s principal production areas.

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Rolling	630	97.4%	
Wire products	590	96.9%	

Beloretsk Metallurgical Plant together with its branch produced a total of 693.4 thousand tonnes of steel products made from semi-finished products in 2011, including Chelyabinsk Metallurgical Plant s semi-finished products (wire rod) which were used in wire products production in the amount of 81.8 thousand tonnes. Wire products production amounted to 572.0 thousand tonnes. Rolled products production amounted to a total of 613.5 thousand tonnes, out of which 492.1 thousand tonnes were further processed into wire products and 121.4 thousand tonnes constituted the output volume of wire rod for third-party customers.

Vyartsilya Metal Products Plant

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

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Wire products	130	94.3%	

Vyartsilya Metal Products Plant produced 122.6 thousand tonnes of wire products in 2011.

Urals Stampings Plant

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

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Stampings and forgings	213	94.7%	

Urals Stampings Plant produced 201.3 thousand tonnes of specialty steel stampings in 2011.

Mechel Targoviste

Mechel Targoviste is a major Romanian EAF steel mill that produces specialty and carbon long steel products and seized rolling. Mechel Targoviste is the largest producer of rebar in Romania and the second largest producer of raw steel in Romania, according to Metal Invest Consulting, a member of UniRomSider, a Romanian association of steel manufacturers. The plant s customers are largely from the engineering, seized rolling and construction industries. We acquired Mechel Targoviste in 2002.

Mechel Targoviste s principal production lines include an EAF workshop equipped with one modernized electric arc furnace of 75 tonnes; a steel vacuum processing machine and two ladle furnaces; a concasting machine; and two continuous long products rolling mills for 20-80 millimeter round bars, 60-70 millimeter square bars, 24-57 millimeter hexagonal bars, bands 6-12 millimeters thick and 60-120 millimeters wide, 12-26 millimeter bundle bars and 10-40 millimeter bar reinforcing rolled products. The following table sets forth the capacity utilization rate and the planned increase in capacity for each of Mechel Targoviste s principal production areas.

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Steel-making	550	92.4%	
Rolling	550	98.1%	
Seized rolling	18	35.6%	

Mechel Targoviste produced 508.2 thousand tonnes of raw steel, 539.3 thousand tonnes of rolled products and 6.4 thousand tonnes of seized rolling in 2011.

In 2011, Mechel Targoviste experienced high rolling capacity utilization rates due to efforts to reduce semi-fixed costs as well as variable costs with respect to power resources through an increase of equipment utilization rate. The low seized rolling capacity utilization rates in 2011 resulted from a decrease in demand for seized rolling both in domestic and export markets.

Mechel Campia Turzii

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

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Mechel Campia Turzii s principal production lines include several wire-drawing workshops equipped with drawing machines, nail-making presses and wire annealing and galvanizing lines, wire patenting lines, as well as combined wire patenting and galvanizing lines. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for each of Mechel Campia Turzii s principal production areas.

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Rolling[(1)]	300	88.6%	
Wire products	100	80.3%	

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

Mechel Campia Turzii produced 189.3 thousand tonnes of rolled products and 80.3 thousand tonnes of wire products in 2011.

Mechel Nemunas

Mechel Nemunas is a Lithuanian wire products plant that produces drawn, annealed and seized wire, nails, steel wire fiber and chain link fences. Its customers are primarily from the construction, engineering and furniture industries. We acquired Mechel Nemunas in 2003.

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Wire products	90	80.6%	

Mechel Nemunas produced 72.5 thousand tonnes of wire products in 2011.

Ductil Steel

Ductil Steel is a Romanian company that owns the Buzau plant, which produces reinforcing rolled products, wire rod and wire products, and the Otelu Rosu plant, which produces steel and billets. The Otelu Rosu plant s products are supplied to the Buzau plant, Mechel Campia Turzii and Laminorul Plant. We acquired Ductil Steel in 2008.

Prior to this acquisition, we already owned two steel plants in Romania: Mechel Targoviste and Mechel Campia Turzii. Following our acquisition of Ductil Steel, in order to enhance the performance and efficiencies of our Romanian subsidiaries, we established Mechel East Europe Metallurgical Division, effective from October 22, 2008.

The main objective of the Mechel East Europe Metallurgical Division is to coordinate the operations of Mechel s steel subsidiaries in Eastern Europe, including investment, modernization, streamlining and production cost reduction efforts through the implementation of efficient logistics planning for raw material purchases and product marketing, as well as to provide our Romanian plants with our own billets. Additionally, the Mechel East Europe Metallurgical Division handles human resources policy and coordinates contacts with banks and other financial institutions. The division s top priority is the modernization of the Ductil Steel Buzau, Otelu Rosu, Mechel Targoviste, Mechel Campia Turzii and Laminorul steel plants.

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Ductil Steel s principal production facilities include one EAF of 110 tonnes; a ladle furnace of 105 tonnes; a concasting machine; a continuous rolling mill; and several wire-processing workshops equipped with drawing machines, nail-making presses and wire annealing, annealing and galvanizing lines, cold rolling lines for reinforcing wire and mesh-welders for its processing into reinforcing meshes. In June 2011, second EAF of 110 tonnes equipped with COSS system for scrap heating by waste gases was commissioned at the Otelu Rosu plant. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Ductil Steel s principal production area.

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Steel-making	600	67.0%	
Rolling	300	62.6%	
Wire products	120	93.6%	

Ductil Steel produced 402.1 thousand tonnes of raw steel, 187.9 thousand tonnes of rolled products and 112.3 thousand tonnes of wire products in 2011.

Laminorul Plant

Laminorul Plant is a steel plant located in southeast Romania in close proximity to the Braila ports on the Danube River. The plant has two rolling mills for production of structural shapes (including beams, channels, equal and unequal angles for engineering and construction industries), which have a production capacity of over 380,000 tonnes of rolled products per year. Laminorul Plant is the only producer in Romania of flat bulb steel used in shipbuilding. We acquired Laminorul Plant in 2010. The following table sets forth the capacity, the capacity utilization rate and the planned increase in capacity for Laminorul Plant s principal production area.

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Rolling	380	62.5%	

Laminorul Plant produced 237.7 thousand tonnes of rolled products in 2011.

Donetsk Electrometallurgical Plant

Donetsk Electrometallurgical Plant is a Ukrainian plant located in Donetsk, which specializes in the production of continuous cast billets and rolled round billets from high-quality grades of steel with thermal treatment. The plant s customers are largely from the automotive and shipbuilding industries. We acquired Donetsk Electrometallurgical Plant in December 2011.

Donetsk Electrometallurgical Plant s principal production facilities include an EAF of 130 tonnes; a ladle furnace; a vacuum degasser; a concasting machine; and a blooming workshop equipped with heat treatment machines.

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Sales of steel products

The following table sets forth our revenues by primary steel segment product categories and our main products within these categories (including as a percentage of total steel segment revenues) for the periods indicated. Steel segment sales data presented in Steel Segment do not include intercompany sales.

	2011		2010		2009	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Pig Iron	122.6	1.7%	63.5	1.1%	45.4	1.4%
Semi-Finished Products, including:	1,300.1	18.2%	1,235.6	22.1%	496.8	15.8%
Carbon and Low-Alloyed Semi-Finished Products[(1)]	1,072.6	15.0%	1,091.9	19.5%	481.3	15.3%
Long Steel Products, including:	3,076.5	43.0%	2,266.8	40.6%	1,469.9	46.6%
Stainless Long Products	33.5	0.5%	51.8	0.9%	43.4	1.4%
Alloyed Long Products	310.9	4.3%	226.5	4.1%	69.4	2.2%
Rebar	1,645.5	23.0%	1,150.3	20.6%	881.6	28.0%
Wire Rod	214.3	3.0%	287.5	5.1%	203.5	6.5%
Carbon and Low-Alloyed Engineering Steel	872.3	12.2%	550.7	9.9%	272.0	8.7%
Flat Steel Products, including:	739.5	10.3%	487.3	8.7%	257.2	8.3%
Stainless Flat Products	224.2	3.1%	204.6	3.7%	103.2	3.3%
Carbon and Low-Alloyed Flat Products	515.3	7.2%	253.6	4.5%	154.0	4.9%
Forgings, including:	167.0	2.3%	121.0	2.2%	76.4	2.4%
Stainless Forgings	43.1	0.6%	22.8	0.4%	12.2	0.4%
Alloyed Forgings	11.6	0.2%	6.5	0.1%	2.7	0.1%
Carbon and Low-Alloyed Forgings	74.7	1.0%	67.4	1.2%	58.8	1.9%
Forged Alloys	37.7	0.5%	24.2	0.4%	2.1	0.1%
Stampings	302.3	4.2%	191.4	3.4%	136.8	4.4%
Wire Products, including:	944.3	13.2%	723.0	12.9%	471.9	15.0%
Wire	641.9	9.0%	491.5	8.8%	319.5	10.2%
Ropes	92.6	1.3%	75.2	1.3%	45.8	1.5%
Other	502.2	7.0%	497.7	8.9%	188.8	6.0%
Total	7,154.4	100%	5,586.2	100%	3,143.3	100%

(1) Excludes revenues from slab sales.

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

Region[(1)]	**2011**	**2010**	**2009**
Russia	53.5%	54.7%	49.7%
Other CIS	6.4%	7.0%	8.0%
Europe	23.3%	17.9%	18.9%
Asia	0.8%	2.8%	6.0%
Middle East[(2)]	10.8%	14.7%	16.0%
United States	1.8%	0.3%	0.3%
Other	3.4%	2.6%	1.1%
Total	100%	100%	100%

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

(2) Our steel segment sales to Middle East primarily go to Iran, Turkey, Saudi Arabia and Syria, which together accounted for 97% of the total steel segment sales to Middle East in 2011.

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In 2011, the five largest customers of our steel segment products were Al-Ittefaq Steel Products Co. (semi-finished steel), Stemcor (semi-finished steel, long steel products and steel wire), Cognor (long and flat steel products, forgings and wire products), The David J. Joseph Company (pig iron) and VA Intertrading Aktiengesellschaft (semi-finished steel, pig iron and wire rod), which together accounted for 5.2% of our steel segment sales.

In 2011, we continued operations with the related metallurgical plants. We also continued selling pig iron and semi-finished products to Metallurg-Trust. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. These transactions furthered all parties interests in expanding our group s operations and products range in the steel market and allowing the related metallurgical plants access to our group s strong supply and sales networks. Revenues from sales to related metallurgical plants and Metallurg-Trust amounted to 11.8% of our steel segment sales in 2011.

The majority of our steel segment export sales are made to independent distributors. Contracts with distributors generally specify certain ports to which we must deliver our products. The distributors take delivery of our products at these locations, and further on-sell the products to other distributors or end users. When these distributors take delivery of our products, we are provided in certain instances with documentation showing the further destination of our products. We do not have control over the final destination of our products, contractually or otherwise.

Based on such documentation, we are aware that certain of our products are sold to countries that are subject to international trade restrictions or economic embargoes that prohibit and/or materially restrict certain persons (for instance, U.S. incorporated entities and U.S. citizens or residents) from engaging in commercial, financial or trade transactions with such countries, including Iran and Syria (the **Sanctioned Countries**). We estimate that approximately 4.0% of our total sales in 2011 were sold in the Sanctioned Countries, mostly by independent distributors to other distributors or end-users. Such sales accounted for 7.3% of our total sales in 2010.

In addition, we have a very limited number of direct sales to customers in the Sanctioned Countries, amounting to approximately 0.6% of our total sales in 2011.

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

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The following table sets forth information on our domestic and export sales of our primary steel product categories for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 23 to our consolidated financial statements.

Products	2011	2010	2009
	(In millions of U.S. dollars, except for percentages)		
Pig Iron	122.6	63.5	45.4
Domestic Sales	17.7%	62.7%	39.8%
Export	82.3%	37.3%	60.2%
Semi-Finished Steel Products	1,300.1	1,235.6	496.8
Domestic Sales	26.9%	18.2%	7.8%
Export	73.1%	81.8%	92.2%
Long Steel Products	3,076.5	2,266.8	1,469.9
Domestic Sales	81.9%	76.1%	69.3%
Export	18.1%	23.9%	30.7%
Flat Steel Products	739.5	487.3	257.2
Domestic Sales	86.1%	92.2%	86.5%
Export	13.9%	7.8%	13.5%
Forgings	167.0	121.0	76.4
Domestic Sales	78.4%	74.5%	60.1%
Export	21.6%	25.5%	39.9%
Stampings	302.3	191.4	136.8
Domestic Sales	91.9%	92.7%	85.5%
Export	8.1%	7.3%	14.5%
Wire Products	944.3	723.0	471.9
Domestic Sales	78.2%	79.1%	76.4%
Export	21.8%	20.9%	23.6%
Other	502.2	497.7	188.8
Domestic Sales	97.9%	95.3%	88.1%
Export	2.1%	4.7%	11.9%
Total	7,154.4	5,586.2	3,143.3
Domestic Sales	72.2%	67.2%	63.2%
Export	27.8%	32.8%	36.8%

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

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The following table sets forth by percentage a breakdown of our shipment volumes of all products produced in Russia by industry sector within the Russian market in 2011.

Use by Industry	Metal Works, Wire Products Plants	Pipe Factories	Construction	Engineering	Railway Construction, Repair	Power Generation	Other Industries[1]
Semi-Finished Steel Products	99.7%	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%
Long Steel Products	4.2%	2.2%	48.1%	9.6%	0.4%	0.1%	35.5%
Flat Steel Products	14.8%	3.9%	20.3%	13.3%	0.2%	0.5%	47.0%
Forgings	5.7%	39.1%	0.0%	15.1%	0.0%	0.0%	40.2%
Stampings	0.1%	0.0%	0.0%	91.4%	0.6%	0.0%	7.9%
Wire Products	13.7%	0.5%	19.7%	8.8%	4.3%	0.2%	52.8%

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

Marketing and distribution

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

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

In 2011, most of our production facilities handled their domestic wholesales independently, and our export wholesales were marketed by Mechel Trading.

We also market and sell steel products sourced from, and supply our products as well as products we purchase on the market to, related metallurgical plants. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Domestic sales

Our Russian steel production facilities Chelyabinsk Metallurgical Plant, Izhstal and Urals Stampings Plant are located in large industrial areas and have long-standing relationships with local wholesale customers. Mechel Service, a Russian subsidiary of Mechel Service Global, has 96 storage sites in 70 cities throughout Russia to serve our end-user customers, which helps us to establish long-standing customer relationships by virtue of proximity to both production and customers. Mechel Service had 2,246 employees as of December 31, 2011.

Our Romanian domestic sales are carried out by our Romanian subsidiaries Mechel Campia Turzii, Mechel Targoviste, Ductil Steel, Laminorul Plant and Mechel Service Romania.

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Export sales

Most of the exports in our steel segment are made to independent distributors, which then sell our products to end users. Our subsidiary Mechel Trading has a branch office in Belgium and a representative office in Turkey.

We actively develop sales of high-quality rolled steel products to local end-user customers in Europe through Mechel Service Global s subsidiaries. In 2010, Mechel Service Global established new subsidiaries in the UK, France and Hungary, as well as WNL Staal B.V. (Netherlands), Femax a.s. (Czech Republic) and Ramateks Metal Sanayi ve Ticaret a.s. (Turkey) entered into Mechel Service Global that year. In Germany, HBL Holding, a subsidiary of Mechel Service Global, opened three new offices. In 2011, we developed our sales in Europe primarily through the establishment and launching of new centers for processing of high-quality rolled steel products to meet the requirements of end customers. Our production facilities supply high-quality rolled steel products to the subsidiaries of Mechel Service Global in Western Europe either directly, or through the logistics center in the Port of Antwerp. Our logistics center in the Port of Antwerp also allows us to sell high-quality rolled steel products to manufacturing and service companies on a walk-in basis.

Our Romanian export sales are carried out directly by our Romanian production facilities Mechel Campia Turzii, Mechel Targoviste, Laminorul Plant and Ductil Steel as well as by Mechel Service Global and Mechel Trading.

Distribution

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

Market share and competition

In our core export markets, we primarily compete with Russian and Ukrainian producers. The leading global steel manufacturers have been increasingly focused on value-added and higher-priced products. The principal competitive factors include price, distribution, product quality and customer service.

In the Russian market, we compete on the basis of price and quality of steel products, their added value, product range and service, technological innovation and proximity to customers. The Russian steel industry is characterized by a relatively high concentration of production, with the six largest integrated steel producers, including ourselves, accounting for 83.7% of overall domestic crude steel output in 2011, according to Metal Expert.

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

Magnitogorsk Iron & Steel Works OAO (**MMK**) is Russia s largest steel manufacturer by volume, accounting for 17.6% of the volume of Russian commodity steel products output (including long products, flat products and semi-finished products) in 2011. MMK s product mix is comprised mostly of flat products, representing 84.6% of its commercial steel products output (including semis) in 2011. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 38.9% of its output in 2011. Its production facilities are located in Magnitogorsk in the southern Urals.

Evraz Group S.A., whose Russian operations include the steel producers Nizhny Tagil Metallurgical Works OAO, ZapSib and Kuznetsky Metallurgical Works OAO, is Russia s second largest steel manufacturer by volume on a consolidated basis, accounting for 17.3% of Russia s total commodity steel products output in 2011. Evraz Group focuses on the production of long products, including rebars, wire rods and profiled rolled products (such as rails, beams and channels). Evraz Group also

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controls iron ore producers Kachkanar GOK OAO and Vysokogorsky GOK OAO and coking coal producer Yuzhkuzbassugol Coal Company OAO, and has an equity investment in Raspadskaya OAO, which produces coking coal.

Novolipetsk Metallurgical Works OAO (**NLMK**) had 15.3% of the volume of Russian commodity steel production in 2011. The company produces primarily flat products (hot-rolled and cold-rolled), including galvanized products. NLMK exported 68.9% of its products in 2011. Domestically, NLMK s largest customers are in the construction and oil and gas industries, followed by companies in the automotive sector. NLMK also controls iron ore producer Stoylensky GOK. The company s steel facilities are located in Lipetsk, to the southeast of Moscow. NLMK also controls Maxi-Group OAO in Russia, which operates two steel production sites in the Sverdlovsk region: square billet and long steel producer Nizhneserginsky Hardware & Metallurgical Works and long steel and wire products producer Berezovsky Electro-Steel Works. These facilities are managed by the NLMK-Long steel OOO which had a 3.1% share in domestic commodity steel products output in 2011.

Severstal OAO had a 17.1% share by volume of Russian commodity steel products output in 2011. The company specializes in flat products which constitute a significant part of its production. Severstal is the second-leading producer of flat products and controls 31.4% of Russia s total flat products output. Domestic sales accounted for 60.4% of Severstal s output in 2011, with the oil and gas industry and automotive sector as its leading customers. Severstal also controls coal producer VorkutaUgol and iron ore producers Karelsky Okatysh and Olenegorsky GOK, which satisfy a portion of Severstal s coking coal and iron ore requirements.

Metalloinvest Management Company OOO (**Metalloinvest**), whose Russian assets consist of Oskolsky Electric Metallurgical Works OAO (OEMK) and Ural Steel OAO, had a 7.6% share of Russian commodity steel products output. OEMK produces only long products, and Ural Steel produces both long and flat products. Metalloinvest exported 63.0% of its commodity steel production in 2011. The company s production facilities are located in the Central and Urals federal districts of Russia. Metalloinvest also controls Russia s largest iron ore and pellets production facilities: Lebedinsky GOK OAO and Mikhailovsky GOK OAO.

Source: Company websites; Metal Expert.

These six companies, including ourselves, can be divided into two groups by product type. MMK, Severstal and NLMK focus mainly on flat products, while we, Evraz Group and Metalloinvest produce primarily long products. Mechel is the second largest and most comprehensive producer of specialty steel and alloys in Russia, and accounted for 27.8% of total Russian specialty steel output by volume in 2011, according to Chermet and Metal Expert. We are also the second largest producer of long steel products (excluding square billets) in Russia by volume, with significant market shares in both regular long steel products and specialty long steel products, according to Metal Expert and Chermet.

In the Russian non-specialty long steel products category, our primary products and our market position by production volume in 2011 were as follows, according to Metal Expert:

Reinforcement bar (rebar) In rebar, we compete in the 6-40 millimeters range. In 2011, the largest domestic rebar producers were Evraz Group (26.0%), Mechel (24.2%), NLMK-Long steel (19.0%) and Abinsk Electric Steel Works (7.4%).

Wire rod There were five major producers of wire rod in Russia in 2011: Mechel (35.0%), Evraz Group (18.8%), NLMK-Long steel (13.7%), Severstal (12.2%) and MMK (17.6%).

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

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According to Metal Expert and Chermet, we were one of the leading producers in Russia of specialty long steel products (bearing, tool, high-speed and stainless steel) in 2011, producing 14.6% of the total Russian output by volume, and we had significant shares of Russian 2011 production volumes of stainless long products (16.5%), tool steel (26.8%) and high-speed steel (50.6%).

The following tables set forth additional information regarding our 2011 market shares in Russia for various categories of steel products.

All long products (excluding square billets)

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Evraz Group S.A.	5,508	32.8%
Mechel OAO	3,062	18.2%
NLMK-Long steel OOO	1,552	9.3%
MMK OAO	1,501	8.9%
Severstal OAO	1,035	6.2%
Metalloinvest Management Company OOO	873	5.2%
Other	3,259	19.4%
Total	16,790	100.0%

Source: Metal Expert.

Long products Wire rod[(1)]

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	927	35.0%
Evraz Group S.A.	498	18.8%
MMK OAO	465	17.6%
NLMK-Long steel OOO	362	13.7%
Severstal OAO	324	12.2%
Other	71	2.7%
Total	2,647	100.0%

Source: Metal Expert.

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

Long products *Rebar*

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Evraz Group S.A.	1,632	26.0%
Mechel OAO	1,519	24.2%
NLMK-Long steel OOO	1,190	19.0%
Abinsk Electric Steel Works OOO	466	7.4%
Revyakino Metal-Rolling Plant OAO	369	5.9%
Other	1,098	17.5%
Total	6,274	100.0%

Source: Metal Expert.

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Flat stainless steel

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	47.6	80.1%
VMZ Red October	10.0	16.7%
MMZ Hammer & Sickle	0.2	0.3%
Other	1.7	2.9%
Total	59.5	100.0%

Source: Metal Expert.

Wire products

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	677.8	38.9%
Severstal-Metiz OAO	394.7	22.7%
MMK-Metiz OAO	250.2	14.4%
NLMK-Long steel OOO	237.5	13.6%
Evraz Group S.A.	158.9	9.1%
Other	23.5	1.3%
Total	1,742.6	100.0%

Source: Prommetiz, manufacturers data.

Wire products Spring wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel OAO	44.4	57.5%
Severstal-Metiz OAO	24.8	32.2%
MMK-Metiz OAO	7.9	10.3%

Total	77.1	100.0%

Source: Manufacturers data.

Wire products High-tensile wire

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Severstal-Metiz OAO	58.1	54.7%
Mechel OAO	41.0	38.6%
MMK-Metiz OAO	7.1	6.7%
Total	106.2	100.0%

Source: Manufacturers data.

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The following tables set forth additional information on our market shares in Romania for various categories of steel products in 2011.

Long products Rebar

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel companies (Mechel Targoviste, Mechel Campia Turzii, Ductil Steel)	522.7	100.0%
Total	522.7	100.0%

Wire rod

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel companies (Mechel Campia Turzii, Ductil Steel)	324.3	100.0%
Total	324.3	100.0%

Sections, bars (profiles)

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel companies (Mechel Targoviste, Laminorul Plant)	230.0	84.4%
TMK-SCRresita	26.5	9.7%
ArcelorMittal Hunedoara	16.0	5.9%
Total	272.5	100.0%

Cold-drawn wire

Manufacturer	Production (In thousands of tonnes, except for percentages)	Market Share by Production Volume
Mechel companies (Mechel Campia Turzii, Ductil Steel)	63.2	49.1%
Metalicplas Dej	23.5	18.3%

Sarme si Cabluri Harsova	16.4	12.7%
Dan Steel Beclean	14.8	11.5%
Ductil Buzau	9.6	7.5%
Cord Buzau	1.1	0.9%
Total	128.6	100.0%

Galvanized wire

Manufacturer	**Production**	**Market Share by Production Volume**
	(In thousands of tonnes, except for percentages)	
Mechel companies (Mechel Campia Turzii, Ductil Steel)	56.2	57.6%
Dan Steel Beclean	27.6	28.3%
Sarme si Cabluri Harsova	10.5	10.8%
Metalicplas Dej	3.2	3.3%
Total	97.5	100.0%

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Welded mesh

Manufacturer	Production	Market Share by Production Volume
	(In thousands of tonnes, except for percentages)	
Mechel companies (Ductil Steel, Mechel Campia Turzii)	69.9	35.0%
Dan Steel Beclean	32.0	16.0%
Metalicplas Dej	13.1	6.5%
Other	85.0	42.5%
Total	200.0	100.0%

Raw materials

The principal raw materials we use in the making of steel are coke (produced from coking coal), iron ore, nickel, ferrous scrap and limestone. We process coking coal concentrate into coke at Mechel Coke, located in the Urals, and at Moscow Coke and Gas Plant, which we acquired in 2006. In 2011, our production facilities used 4.6 million tonnes of coking coal concentrate (including 3.2 million tonnes used by Mechel Coke and 1.4 million tonnes used by Moscow Coke and Gas Plant), and 68% of total usage was sourced internally. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in our ferroalloys production. In 2011, we produced and internally used approximately 2.3 million tonnes of coke in our production facilities and produced and sold another approximately 1.0 million tonnes of coke to third parties.

The principal raw materials we use in pig iron production are iron ore products (sinter of our own production and purchased oxidized pellets), coke and limestone. Pig iron is made in blast furnaces. For sinter production we use iron ore concentrate. In 2011, our steel-making operations used 5.8 million tonnes of iron ore feed, approximately 26% in the form of pellets and 74% in the form of sinter, and we internally sourced 30% of our total iron ore concentrate requirements during this period. Korshunov Mining Plant supplied our steel segment with 1.7 million tonnes of iron ore concentrate in 2011. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. In 2011, we purchased most of the remaining part of our iron ore feed from Russian suppliers such as Karelsky Okatysh, Vysokogorsky GOK, Mikhailovsky GOK and Sokolov-Sarbai Mining Production Association (Kazakhstan) under monthly, quarterly and annual contracts on market terms.

We produce 57% of steel in basic oxygen furnaces. In steel-making, ferrous scrap is used in the composition of feedstock, and we are approximately 19% self-sufficient in this raw material, which amounts to 436 thousand tonnes of scrap, sourcing the balance from various scrap traders. We generate our own scrap supply through Metals Recycling, a Chelyabinsk-based metal scrap processing company, which we acquired in March 2006. In addition, Mechel Trading House has a separate business unit in Chelyabinsk through which it purchases scrap metal from third-party suppliers and sells it to the companies within our group.

In 2011, we used nickel sourced from Norilsk Nickel and Ufaleynickel in the production of stainless and other specialty steels. In 2011 our production facilities used 7,935 tonnes of nickel (including 4,510 tonnes at Chelyabinsk Metallurgical Plant, 2,779 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 646 tonnes at Izhstal) of which 89% was supplied by ferronickel produced at Southern Urals Nickel Plant and 11% was purchased from third parties.

In 2011, our production facilities used 28,818 tonnes of ferrosilicon (including 26,196 tonnes at Chelyabinsk Metallurgical Plant, 477 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 2,145 tonnes at Izhstal), almost all of which was supplied by Bratsk Ferroalloy Plant.

In 2011, our production facilities used 26,711 tonnes of ferrochrome (including 21,179 tonnes at Chelyabinsk Metallurgical Plant, 2,329 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 3,203 tonnes at Izhstal) of which 85% was supplied by Tikhvin Ferroalloy Plant and 15% was purchased from third parties.

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We internally source all of our limestone requirements from our Pugachevsky Open Pit. In 2011, we used approximately 1.0 million tonnes of limestone in the production of steel.

Steel-making requires significant amounts of electricity to power electric arc furnaces and rolling mills and to convert coal to coke. In 2011, our steel and ferroalloys operations consumed approximately 4.6 billion kWh of electricity, of which 2.1 billion kWh was used at Chelyabinsk Metallurgical Plant, 2.5 billion kWh was used at other Russian facilities and 0.9 billion kWh was used at our Eastern European plants. Chelyabinsk Metallurgical Plant and Moscow Coke and Gas Plant have power co-generation facilities, which are operated by Mechel Energo. In 2011, these facilities produced 1.9 billion kWh of electricity, of which approximately 1.4 billion kWh was supplied for internal consumption (including mining operations), yielding 21% self-sufficiency overall for our group, which consumed 7.0 billion kWh of electricity in 2011. The balance was purchased in the wholesale and retail electricity markets. Aside from Southern Kuzbass Power Plant and Toplofikatsia Rousse, which run on steam coal, our power-generating facilities work on blast furnace and coke gas, which are by-products of our steel-making operations, and natural gas, which we purchase from Gazprom. In 2011, we consumed 2,261.7 million cubic meters of blast furnace gas, 509.6 million cubic meters of coke gas and 2,131.0 million cubic meters of natural gas. In 2011 Southern Kuzbass Power Plant and Toplofikatsia Rousse consumed 1.3 million tonnes of steam coal sourced both from our own coal mining assets and from third parties.

Large amounts of water are also required in the production of steel. Water serves as a resolvent, accelerator and washing agent. Water is used to cool the steel, to carry away waste, to help produce and distribute heat and power and to dilute liquids. One of the principal sources of water is rivers, and many of our facilities recirculate a portion of water used for their production needs. For example, Chelyabinsk Metallurgical Plant sources 90% of its water needs from recycled water and the rest from a local river. Vyartsilya Metal Products Plant sources 100% of its water needs from a local river. Southern Urals Nickel Plant sources 33.4% of its water needs through recycling and 66.6% from a local river. Mechel Targoviste sources 96% of its production water needs through recycling and the rest from a local river. To date, water consumption from local rivers has not resulted in any significant environmental issues, although we make no assurances that such issues will not arise in the future. The companies effect payments for the use of water resources and we believe their emissions and discharges are within the permissible limits.

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

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

Trade restrictions

Trade restrictions in the form of tariffs, duties and quotas are widespread in the steel industry. However, we are less exposed than most other Russian steel producers to these trade restrictions as restrictions on Russian exports have mainly been directed against flat products, whereas most of our exports consist of long products, such as wire rods and rebar. In addition, the abolition by the Russian government of steel export duties in 2002 has also effectively improved exports of Russian steel. In the future the Russian government may restore export duties on steel products and may also impose export duties on some raw materials, such as coal and iron ore concentrate. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry We face numerous protective trade restrictions in the export of our steel products and ferroalloys, and we may face export duties in the future.

In 2011, approximately 0.7% of our steel segment export sale revenues were derived from sales of steel products that were subject to import restrictions. We describe below the main applicable trade restrictions in our key markets.

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European Union

Our sales to third parties in the E.U. from our Russian steel facilities were approximately $131.4 million, or 1.8% of our total steel segment revenues in 2011. The Russian government and the E.U. have an export quota system in place whereby Russian exports to the E.U. are limited to certain stipulated quantities for each product category. The quota by product category is distributed among Russian producers based on a procedure jointly developed by the Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Industry and Energy of the Russian Federation. Effective as of May 13, 2008, these ministries have been reorganized into the Ministry of Economic Development and the Ministry of Industry and Trade, respectively, with the old Ministry of Industry and Energy s energy functions being transferred to a new Ministry of Energy and the trade functions of the old Ministry of Economic Development and Trade being transferred to a new Ministry of Industry and Trade. The procedure provides that for each product category, a company s export quota allocation is calculated on the basis of shipments by the company of the particular product over the previous years to the E.U. market (which is given a 70% weight), and on the company s market share in domestic production of the particular product (which is given a 30% weight). After the quotas are calculated, the Russian Ministry of Industry and Trade confirms quota allocations and issues export licenses for these quotas. In 2011, the quota covered approximately 40% of our steel segment products exported from Russia to the E.U.

In 2011, the total E.U. quota for Russian steel was 3,264 thousand tonnes. Initially, we received 347.3 thousand tonnes of the total quota and after the quota was redistributed, in accordance with the export quota system, our part in the quota was increased to 369.4 thousand tonnes. We have used 32.9% of our individual quotas both in long and flat steel products. The E.U.-Russia Steel Agreement for 2012 provides for the total Russian quota to be 3,346 thousand tonnes. Our quota is set at approximately 358.6 thousand tonnes, which includes 26.1 thousand tonnes for flat products and 332.5 thousand tonnes for long products. Our supply of wire rod to Mechel Nemunas, our wire products plant in Lithuania, and to our Romanian subsidiary Mechel Campia Turzii is also subject to the E.U. export quota system, and our quota for those supplies is 116.7 thousand tonnes for 2012. Upon Russia s accession to the WTO following the completion of the ratification by the State Duma of the Russian Federation, the E.U.-Russia Steel Agreement should terminate, and the export of Russian steel products to the E.U. should not be subject to any quantitative restrictions.

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

United States

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

Ferroalloys Segment

Our ferroalloys segment produces and sells low-ferrous ferronickel, ferrochrome and ferrosilicon produced at Southern Urals Nickel Plant, Tikhvin Ferroalloy Plant and Bratsk Ferroalloy Plant, respectively. The following table sets our production volumes for each of our ferroalloys segment products.

	2011	2010	2009
	(In thousands of tonnes)		
Ferrosilicon	82.7	89.9	86.0
Ferrochrome	97.7	81.4	82.6
Nickel	16.9	16.8	15.6

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Description of key products

Ferrosilicon. Ferrosilicon is used in ferrous metallurgy as a deoxidizer or as an alloying element for production of electrotechnic, spring wire, corrosion-resistant and heat resistant steel grades, or as a pig iron modifier. In nonferrous metallurgy, ferrosilicon is used as a reducing agent for production of nonferrous metals and alloys. We produce two types of ferrosilicon: with 65% and 75% silicon content in the alloy. The ferrosilicon we produce is a high-C ferrosilicon, which contains 0.1% carbon. We offer our customers ferrosilicon from our Bratsk Ferroalloy Plant.

Low-ferrous ferronickel. Low-ferrous ferronickel is an alloy of iron and nickel used in production of corrosion-resistant and heat resistant steel grades. Southern Urals Nickel Plant offers low-ferrous ferronickel to export customers, as well as to a number of companies within Russia and within our group.

Ferrochrome. High-carbon ferrochrome is used in the iron industry to alloy construction steel and heat-resistant and stainless steels. We produce high-carbon ferrochrome at our Tikhvin Ferroalloy Plant and we use it internally within our group and export and sell within Russia.

Mining and manufacturing processes

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

Low-ferrous ferronickel. Nickel ores from both mines are transported by rail to our nickel production plant in Orsk, which lies east of the southern extremity of the Ural Mountains, close to the border with Kazakhstan. At this plant, ores are mixed in a ratio of 70% of Buruktal ore and 30% of Sakhara ore and sintered in sintering machines. Sinter with the addition of coke, sulfur pyrite and limestone is smelted in shaft furnaces that produce matte. This matte is then divided into converter matte and waste slag in horizontal converters. Converter matte is processed into nickel monoxide and nickel monoxide is further processed into ferronickel. Ferronickel is shipped by rail transportation from Orsk station, as well as by motor transport, to our Chelyabinsk Metallurgical Plant, to other Russian customers and for international delivery.

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

Ferrochrome. High-carbon ferrochrome is produced in electric arc furnaces in a continuous ore smelting process. Chrome and iron are reduced from chrome ore concentrate with coke carbon, with over 7% of the carbon being dissolved in this alloy. High-carbon ferrochrome is discharged from the furnace periodically. After cooling, metal ingots are split and sorted into various commercial fractions.

Nickel ore and nickel production

Southern Urals Nickel Plant produces nickel in Orsk in the Orenburg region, in the southern part of Russia s Ural Mountains, and operates two open pit nickel ore mines, Sakhara and Buruktal. The Sakhara mine is located east of the Ural Mountains in the Chelyabinsk region, about 370 kilometers north of Orsk. The Buruktal mine is located east of the southern tip of the Ural Mountains, in the Orenburg region, close to the border with Kazakhstan. It is located 230 kilometers east of Orsk. Both the Buruktal and Sakhara mines have railway spurs connected to the Russian rail system, which is controlled by Russian Railways. We acquired Southern Urals Nickel Plant in 2001.

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

License Area	License Holder	License Expiry Date	Status	Area (sq. km)	Year Production Commenced	Surface Land Use Rights
Buruktal	Southern Urals Nickel Plant	December 2012	In production	11.9	1969	Lease, ownership
Sakhara	Southern Urals Nickel Plant	April 2013	In production	2.2	1994	Lease, perpetual use

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

Mine	2011 Tonnes	2011 Grade (% Ni)	2010 Tonnes	2010 Grade (% Ni)	2009 Tonnes	2009 Grade (% Ni)
			(In thousands of tonnes)[1]			
Buruktal	2,063.4	1.04%	2,014.3	1.06%	1,679.3	1.07%
Sakhara	926.3	1.02%	845.3	1.00%	964.5	1.00%
Total ore production	2,989.7	1.03%	2,859.6	1.04%	2,643.8	1.04%
Nickel production	16.9		16.8		15.6	

(1) Volumes are reported on a wet basis.

Chrome ore and silicate nickel ore production

Through our acquisition of Oriel Resources in April 2008, we acquired a 100% interest in the Voskhod chrome project (**Voskhod**) and a 90% interest in the Shevchenko nickel project (**Shevchenko**), both located in northwestern Kazakhstan. In January 2009, we acquired the remaining 10% interest in Shevchenko, giving us a current 100% interest in both Voskhod and Shevchenko.

Oriel Resources holds two licenses to mine chrome ore at the Voskhod deposit in the Aktyubinsk region and silicate nickel ore at the Shevchenko deposit in the Kustanay region, and owns a processing plant located near the Voskhod underground mine.

Voskhod is located in the Chrometau district of the Aktyubinsk region 110 kilometers east of Aktobe and seven kilometers northeast of Chrometau. The site is accessed by road from Chrometau, which lies on the highway from the regional center of Aktobe. Associated chrome ore mining commenced at the Voskhod underground mine in December 2008 and ore production in commercial volumes commenced in July 2009. The mining plant is designed to reach output of 1.3 million tonnes of chrome ore and 0.6 0.7 million tonnes of chromite ore concentrate per annum. Chrome ore concentrate from Voskhod is used in the Tikhvin Ferroalloy Plant in Russia, which is another asset acquired in 2008 as part of Oriel Resources. The subsoil license relating to the chrome deposit at Voskhod was issued by the Government of Kazakhstan in 2004 for a period of 25 years.

The Shevchenko deposit of silicate nickel ore is located in Kazakhstan s Kustanay region and we plan to produce nickel ore there using the in-situ leaching method for further processing into nickel-containing marketable products. The subsoil license relating to the silicate nickel ore deposit at Shevchenko was issued by the Government of Kazakhstan in 1997 for a period of 20 years. Shevchenko is a development stage mineral asset without reportable reserves. Currently, relevant engineering studies are being undertaken.

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The table below sets forth the subsoil licenses used by our chrome ore and silicate nickel ore properties and the expiration dates thereof.

License Area	License Holder	License Expiry Date	Status	Area (sq. km)	Year Production Commenced	Surface Land Use Rights
Voskhod	Voskhod-Oriel	October 2029	In production	1.54	2008	Lease
Shevchenko	Kazakhstansky Nickel Mining Company	March 2017	Feasibility study	103.8	n/a	Lease

In 2011, we produced 691.5 thousand tonnes of chrome ore and 295.1 thousand tonnes of chromite ore concentrate.

Quartzite production

Bratsk Ferroalloy Plant holds the license for the exploration and mining of the Uvatskoye deposit of quartzite and quartzite sandstones, a raw material for ferrosilicon production. The deposit is accessible by unpaved road and located 20 km southwest of Nizhneudinsk in the Irkutsk region. In 2011, we conducted successful technological tests of an experimental batch of quartzite for smelting of ferrosilicon. We completed the exploration of the southern area of the Uvatskoye deposit and registered the quartzite reserves with governmental authorities. In 2012, we plan to commence quartzite mining on this area to supply our Bratsk Ferroalloy Plant. In addition, we continue the exploration of the other two areas at the Uvatskoye deposit, which is scheduled for completion in 2014.

The table below sets forth the subsoil license held in respect of our quartzite project and the expiration date thereof.

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

Ferroalloys production facilities

Southern Urals Nickel Plant

Southern Urals Nickel Plant includes a sinter plant equipped with five sintering machines; a melting workshop equipped with eight shaft furnaces and 14 thirty-tonne converters; and a roasting workshop equipped with two electric arc furnaces with a capacity of 12 MW each. The plant can produce up to 17,500 tonnes per year of low-ferrous ferronickel in pure nickel equivalent. In October 2011, as part of the program for upgrading its production facilities (including reconstruction of smelting facilities) aimed at, in particular, increasing its production efficiency and improving its ecological parameters, Southern Urals Nickel Plant launched an experimental industrial complex to produce ferronickel. The complex will use a new technology for producing ferronickel by smelting in electric furnaces.

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Low-ferrous ferronickel	16.8	100.7%	

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Southern Urals Nickel Plant produced 16,901 tonnes of nickel in 2011.

Bratsk Ferroalloy Plant

Bratsk Ferroalloy Plant is the largest enterprise in Eastern Siberia producing high grade ferrosilicon. Ferrosilicon is used in the steel-making industry for manufacturing carbon and stainless steel deoxidizers of most kinds of steel grades or alloying elements for production of insulating, acid-proof and heatproof steel grades, or pig iron modifier, as well as reducing agents for production of nonferrous metals and alloys. Approximately 5-6 kg of ferrosilicon is used in every tonne of steel produced. Ferrosilicon is a primary raw material for alloyed steels produced by Chelyabinsk Metallurgical Plant. We acquired Bratsk Ferroalloy Plant in 2007.

The main production facilities of the plant include four ore-thermal ovens with a capacity of 25 megavolt-amperes, or MVA. In October 2010 we signed contracts with Siberian Plant of Electrothermal Equipment (Sibelectrotherm JSC, Novosibirsk) for the supply of four ore-thermal ovens with the capacity of 33 MVA each to replace the existing ovens. After the project s completion Bratsk Ferroalloy Plant s production capacity will increase by 30% and its power consumption will be reduced by 10-13%. In March 2012, the first of the four new ore-thermal ovens was launched.

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Ferrosilicon	79.0	104.6%	

Bratsk Ferroalloy Plant produced 82,657 tonnes of ferrosilicon in 2011.

Tikhvin Ferroalloy Plant

Tikhvin Ferroalloy Plant is a modern metallurgical enterprise, which specializes in the production of high-carbon ferrochrome from chrome ore for use predominantly in the production of stainless steel. Recovery of chrome from chrome ore occurs by the agency of metallurgical coke in the presence of a quartzite flux. The plant is situated in the small town of Tikhvin, 200 kilometers southeast of St. Petersburg, Russia. It comprises four ore-smelting open electric AC furnaces with gasproof enclosure and a total capacity of 22.5 MVA each. For effective cleaning of a steam-and-gas mixture, four dry gas cleaning plants with pulsed regeneration are used at the plant. The Tikhvin Ferroalloy Plant s annual capacity is 140,000 basic tonnes of high-carbon ferrochrome. The plant commenced production in April 2007 using imported chrome ore. Since April 1, 2009, the plant has moved to high-carbon ferrochrome production using only concentrate from the Voskhod chrome processing plant. The plant consumes 330,000 tonnes of chromite ore concentrate per annum. In February 2012, the workshop for production of briquettes out of small-fraction chrome ore concentrate was launched at Tikhvin Ferroalloy Plant. The design capacity of the workshop is 5.5 thousand tonnes of chrome briquettes per month. Tikhvin Ferroalloy Plant is certified under environmental protection standard ISO 14001.

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

Production Areas	Capacity in 2011	Capacity Utilization Rate in 2011	Planned Increase (2012-2014)
	(In thousands of tonnes, except for percentages)		
Ferrochrome (60% basic chrome content in the alloy)	140.0	80.8%	

Tikhvin Ferroalloy Plant produced 97.7 thousand tonnes of ferrochrome with 69.5% chrome content in the alloy in 2011.

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Sales of ferroalloys products

The following table sets forth our revenues by primary ferroalloys segment product categories (including as a percentage of total ferroalloys segment revenues) for the periods indicated. Ferroalloys segment sales data presented in Ferroalloys Segment do not include intersegment sales.

	2011		2010		2009	
Revenues	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**% of Revenues**
	(In millions of U.S. dollars, except for percentages)					
Nickel[(1)]	255.2	53.7%	251.6	55.3%	190.6	52.4%
Ferrosilicon	84.7	17.8%	91.7	20.1%	66.6	18.3%
Ferrochrome	105.7	22.3%	93.6	20.6%	92.8	25.5%
Other	29.6	6.2%	18.3	4.0%	13.5	3.7%
Total	475.3	100%	455.2	100%	363.7	100%

(1) Sales of nickel contained in ferronickel and converter matte.

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

Region[(1)]	**2011**	**2010**	**2009**
Russia	27.8%	24.2%	14.6%
Other CIS	3.0%	1.3%	1.7%
Europe	56.2%	61.4%	69.6%
Asia	7.6%	8.8%	12.3%
Middle East	0.0%	0.1%	0.0%
United States	5.1%	4.0%	1.5%
Other	0.3%	0.2%	0.3%
Total	100%	100%	100%

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

In 2011, our ferroalloys segment sales outside of Russia were principally to Europe. Sales in Europe accounted for 56.2% of our total ferroalloys segment sales. The following table sets forth information about the five largest customers of our ferroalloys segment products, which together accounted for 53.5% of our ferroalloys segment sales in 2011.

Customer	**% of Total Ferroalloys Segment Sales**	**Product**	**% of Total Products Sales**
Outokumpu Rossija Oy	29.2%	Nickel	54.4%
Glencore	12.2%	Nickel	22.5%
		Chrome	0.4%

China Perfect Industry Corp.	4.5%	Chrome	20.3%
Kluchevsky Ferroalloys Plant	3.9%	Chrome ore	92.9%
		Ferrosilicon	0.2%
Scanalloys Ltd.	3.7%	Chrome	16.8%

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The following table sets forth information on our domestic and export sales of our primary ferroalloys categories for the periods indicated. We define exports as sales by our Russian and foreign subsidiaries to customers located outside their respective countries. We define domestic sales as sales by our Russian and foreign subsidiaries to customers located within their respective countries. See note 23 to our consolidated financial statements.