Mechel OAO
Form 20-F
April 12, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Form 20-F**

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

**OR**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2010**

**OR**

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

**OR**

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

**Commission file number 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 REPRESENTING ONE COMMON SHARE | NEW YORK STOCK EXCHANGE |
| COMMON SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE | NEW YORK STOCK EXCHANGE[(1)] |
| PREFERRED AMERICAN DEPOSITARY SHARES, EACH PREFERRED ADS REPRESENTING ONE-HALF OF A PREFERRED SHARE | NEW YORK STOCK EXCHANGE |
| PREFERRED SHARES, PAR VALUE 10 RUSSIAN RUBLES PER SHARE | NEW YORK STOCK EXCHANGE[(2)] |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**
**None**
*(Title of Class)*
**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**
**None**
*(Title of Class)*

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

416,270,745 common shares, of which 115,425,447 shares are in the form of common ADSs as of March 31, 2011
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, 2011

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 o

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 o 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 o

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 o

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 o Non-accelerated filer o

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

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

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 o Item 18 o

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 o 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, u
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.

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 currency of the Russian Federation and references to euro or are to the currency of the member states of the European Union (the **E.U.** ) that participate in the European Monetary Union.

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

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

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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 |
| Tomusinsk Open Pit Mine | Tomusinsk Open Pit Mine OAO | Russia, Kemerovo region |
| Korshunov Mining Plant | Korshunov Mining Plant OAO | Russia, Irkutsk region |
| Port Posiet | Port Posiet OAO | Russia, Primorsk territory |
| Yakutugol | Yakutugol Holding Company OAO | Russia, Sakha Republic |
| Port Temryuk | Port Mechel Temryuk OOO | Russia, Krasnodar territory |
| Port Vanino | Port Mechel Vanino OOO | Russia, Khabarovsk territory |
| 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, Novosibirsk region |
| 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 |
| 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 |
| ***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 ZAO | 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 |
| ***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 the 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 statements appear in a number of places including, without limitation, Item 3. Key Information Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- liquidity, capital resources and capital expenditures;
- growth in demand for our products;
- economic outlook and industry trends;
- developments in our markets;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. 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, 2010, 2009, 2008, 2007 and 2006, 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.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2010** | **2009** | **2008** | **2007** | **2006** |
| | **(In thousands of U.S. dollars, except per share data)** | | | | |
| **Consolidated statements of income and comprehensive income data:** | | | | | |
| Revenue, net | 9,746,036 | 5,754,146 | 9,950,705 | 6,683,842 | 4,397,811 |
| Cost of goods sold | (6,149,310) | (3,960,693) | (5,260,108) | (4,166,864) | (2,860,224) |
| Gross profit | 3,596,726 | 1,793,453 | 4,690,597 | 2,516,978 | 1,537,587 |
| Selling, distribution and operating expenses | (2,064,519) | (1,547,809) | (2,134,328) | (1,119,385) | (811,889) |
| Operating income | 1,532,207 | 245,644 | 2,556,269 | 1,397,593 | 725,698 |
| Other (expense) income, net | (563,577) | (150,420) | (1,208,001) | (12,146) | 139,135 |
| Income from continuing operations, before income tax | 968,630 | 95,224 | 1,348,268 | 1,385,447 | 864,833 |
| Income tax expense | (276,656) | (18,893) | (118,887) | (356,320) | (230,599) |
| Income from continuing operations, net of tax | 691,974 | 76,331 | 1,229,381 | 1,029,127 | 634,234 |
| Discontinued operations, net of tax | | | | 158 | 543 |
| Net income | 691,974 | 76,331 | 1,229,381 | 1,029,285 | 634,777 |
| | (34,761) | (2,590) | (88,837) | (116,234) | (31,528) |

| | | | | | |
|---|---|---|---|---|---|
| Less net income attributable to non-controlling interests | | | | | |
| Net income attributable to shareholders of Mechel OAO | 657,213 | 73,741 | 1,140,544 | 913,051 | 603,249 |
| Dividends on preferred shares | (8,780) | (134,498) | | | |
| Net (loss) income attributable to common shareholders of Mechel OAO | 648,433 | (60,757) | 1,140,544 | 913,051 | 603,249 |
| Net income | 691,974 | 76,331 | 1,229,381 | 1,029,285 | 634,777 |
| Currency translation adjustment | (26,218) | (325,353) | (289,633) | 157,288 | 155,451 |
| Change in pension benefit obligation | (9,466) | (10,155) | 87,659 | (14,365) | |
| Adjustment of available-for-sale securities | 4,838 | (5,178) | (6,571) | (5,059) | 11,203 |
| Additional minimum pension liability | | | | | (4,669) |
| Comprehensive (loss) income | 661,128 | (264,355) | 1,020,836 | 1,167,149 | 796,762 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (In thousands of U.S. dollars, except per share data) | | | | |
| Comprehensive income (loss) attributable to non-controlling interests | (32,498) | 6,759 | (26,822) | (136,849) | (38,059) |
| Comprehensive (loss) income attributable to shareholders of Mechel OAO | 628,630 | (257,596) | 994,014 | 1,030,300 | 758,703 |
| (Loss) earnings per share from continuing operations | 1.56 | (0.15) | 2.74 | 2.19 | 1.48 |
| Income per share effect of discontinued operations | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net (loss) income per share | 1.56 | (0.15) | 2.74 | 2.19 | 1.48 |
| Cash dividends per common share | 0.03 | 0.18 | 1.12 | 0.76 | 0.46 |
| Cash dividends per preferred share | 0.11 | 1.62 | 0.00 | 0.00 | 0.00 |
| Weighted average number shares outstanding | 416,270,745 | 416,270,745 | 416,270,745 | 416,270,745 | 408,979,356 |
| **Mining segment statements of income and comprehensive income data[(2)]:** | | | | | |
| Revenue, net | 3,856,165 | 2,111,990 | 4,566,354 | 2,294,746 | 1,429,404 |
| Cost of goods sold | (1,739,350) | (1,271,055) | (1,698,828) | (1,256,208) | (894,341) |
| Gross profit | 2,116,815 | 840,935 | 2,867,526 | 1,038,538 | 535,063 |
| Selling, distribution and operating expenses | (930,923) | (635,766) | (1,040,352) | (410,751) | (337,267) |
| Operating income | 1,185,892 | 205,169 | 1,827,174 | 627,787 | 197,796 |
| **Steel segment statements of income and comprehensive income data[(2)]:** | | | | | |
| Revenue, net | 5,833,677 | 3,302,302 | 5,360,252 | 4,101,762 | 3,079,211 |
| Cost of goods sold | (4,727,243) | (2,664,292) | (3,868,358) | (3,137,744) | (2,246,968) |
| Gross profit | 1,106,434 | 638,010 | 1,491,894 | 964,018 | 832,243 |

| | | | | | |
|---|---|---|---|---|---|
| Selling, distribution and operating expenses | (808,877) | (656,507) | (745,380) | (483,075) | (452,445) |
| Operating (loss) income | 297,557 | (18,497) | 746,514 | 480,943 | 379,798 |
| **Ferroalloys segment statements of income and comprehensive income data[(2)]:** | | | | | |
| Revenue, net | 629,052 | 430,809 | 584,631 | 636,656 | 339,748 |
| Cost of goods sold | (533,928) | (392,428) | (571,221) | (253,725) | (174,675) |
| Gross profit (loss) | 95,124 | 38,381 | 13,410 | 382,931 | 165,073 |
| Selling, distribution and operating expenses | (72,166) | (65,967) | (63,986) | (32,824) | (17,777) |
| Operating (loss) income | 22,958 | (27,586) | (50,576) | 350,107 | 147,296 |
| **Power segment statements of income and comprehensive income data[(2)]:** | | | | | |
| Revenue, net | 1,062,678 | 872,783 | 1,028,110 | 598,515 | 123,322 |
| Cost of goods sold | (763,401) | (642,512) | (714,094) | (393,153) | (110,273) |
| Gross profit | 299,277 | 230,271 | 314,016 | 205,362 | 13,049 |
| Selling, distribution and operating expenses | (252,553) | (189,569) | (284,610) | (192,735) | (4,400) |
| Operating income | 46,724 | 40,702 | 29,406 | 12,627 | 8,649 |
| **Consolidated balance sheet data (at period end):** | | | | | |
| Total assets | 15,776,028 | 13,183,311 | 12,009,634 | 9,227,643 | 4,457,404 |
| Equity attributable to shareholders of Mechel OAO | 4,642,825 | 4,049,721 | 4,030,812 | 3,504,933 | 2,864,963 |
| Equity attributable to non-controlling interests | 308,186 | 280,968 | 290,849 | 300,523 | 163,036 |
| Long-term debt, net of current portion | 5,240,620 | 4,074,458 | 219,816 | 2,321,922 | 322,604 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (In thousands of U.S. dollars, except per share data) | | | | |
| **Consolidated cash flows data:** | | | | | |
| Net cash provided by operating activities | (147,371) | 561,669 | 2,229,941 | 904,969 | 554,923 |
| Net cash used in investing activities | (1,119,203) | (709,931) | (3,249,737) | (3,408,088) | (548,522) |
| Net cash provided by (used in) financing activities | 1,210,125 | 375,434 | 1,247,623 | 2,547,503 | (166,798) |
| **Non-U.S. GAAP measures[3]:** | | | | | |
| Consolidated Adjusted EBITDA | 2,015,446 | 686,641 | 3,017,103 | 1,718,499 | 1,044,777 |
| Mining Segment Adjusted EBITDA | 1,467,936 | 451,952 | 2,129,313 | 768,220 | 309,829 |
| Steel Segment Adjusted EBITDA | 413,577 | 100,170 | 877,428 | 630,497 | 572,249 |
| Ferroalloys Segment Adjusted EBITDA | 94,431 | 34,940 | (33,287) | 365,008 | 160,242 |
| Power Segment Adjusted EBITDA | 60,426 | 53,721 | 55,854 | 28,709 | 10,299 |

(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.

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (In thousands of U.S. dollars) | | | | |
| **Consolidated Adjusted EBITDA reconciliation:** | | | | | |
| Net income attributable to shareholders of Mechel OAO | 657,213 | 73,741 | 1,140,544 | 913,051 | 603,249 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 474,580 | 406,675 | 463,297 | 290,315 | 196,227 |
| Foreign exchange gain/(loss) | 14,544 | 174,336 | 877,428 | (54,700) | (58,774) |
| Gain/(loss) from remeasurement of contingent liabilities at fair value | 1,630 | (494,238) | | | |
| Interest expense | 558,397 | 498,986 | 324,083 | 98,976 | 38,183 |
| Interest income | (17,167) | (21,445) | (11,614) | (12,278) | (8,314) |

| | | | | | |
|---|---|---|---|---|---|
| Net result on the disposal of non-current assets | 14,832 | 27,103 | 15,641 | 10,581 | 12,079 |
| Amount attributable to non-controlling interests | 34,761 | 2,590 | 88,837 | 116,234 | 31,528 |
| Income taxes | 276,656 | 18,893 | 118,887 | 356,320 | 230,599 |
| Consolidated Adjusted EBITDA | 2,015,446 | 686,641 | 3,017,103 | 1,718,499 | 1,044,777 |
| **Mining Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net income attributable to shareholders of Mechel OAO | 756,687 | 598,156 | 1,186,087 | 423,969 | 150,956 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 281,392 | 231,585 | 286,626 | 140,934 | 84,596 |
| Foreign exchange gain/(loss) | (9,354) | (65,954) | 148,652 | (7,326) | (15,756) |
| Gain/(loss) from remeasurement of contingent liabilities at fair value | 1,630 | (494,238) | | | |
| Interest expense | 333,684 | 265,865 | 127,433 | 40,343 | 11,224 |
| Interest income | (133,276) | (106,813) | (26,138) | (13,363) | (3,073) |
| Net result on the disposal of non-current assets | 8,236 | 7,126 | 10,448 | 1,978 | (1,006) |
| Amount attributable to non-controlling interests | 43,130 | 13,538 | 65,833 | 41,454 | 12,340 |
| Income taxes | 185,807 | 2,687 | 330,372 | 140,231 | 70,548 |
| Mining Segment Adjusted EBITDA | 1,467,936 | 451,952 | 2,129,313 | 768,220 | 309,829 |

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (In thousands of U.S. dollars) | | | | |
| **Steel Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | 90,847 | (262,145) | 246,588 | 354,672 | 354,610 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 110,910 | 110,292 | 131,142 | 119,702 | 101,829 |
| Foreign exchange gain/(loss) | 7,141 | 77,629 | 330,173 | (45,772) | (44,942) |
| Gain/(loss) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 228,142 | 221,033 | 174,175 | 77,337 | 26,449 |
| Interest income | (34,736) | (43,863) | (72,792) | (29,291) | (5,618) |
| Net result on the disposal of non-current assets | 2,803 | 3,018 | 3,814 | 8,614 | 12,836 |
| Amount attributable to non-controlling interests | (12,483) | (14,206) | 17,980 | 19,335 | 6,150 |
| Income taxes | 20,953 | 8,412 | 46,348 | 125,900 | 120,935 |
| Steel Segment Adjusted EBITDA | 413,577 | 100,170 | 877,428 | 630,497 | 572,249 |
| **Ferroalloys Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net (loss) income attributable to shareholders of Mechel OAO | (186,256) | (309,922) | (283,294) | 222,024 | 99,458 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 67,303 | 48,727 | 22,738 | 13,366 | 9,224 |
| Foreign exchange gain/(loss) | 16,784 | 162,735 | 398,768 | (1,830) | 1,657 |
| Gain/(loss) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 133,241 | 123,589 | 92,610 | 1,344 | 440 |
| Interest income | (5,350) | (10,042) | (14,404) | (9,848) | (1) |
| Net result on the disposal of non-current assets | 4,723 | 17,165 | 142 | 568 | 242 |
| Amount attributable to non-controlling interests | (630) | 452 | 2,341 | 52,358 | 12,203 |
| Income taxes | 64,616 | 2,236 | (252,188) | 87,026 | 37,019 |
| Ferroalloys Segment Adjusted EBITDA | 94,431 | 34,940 | (33,287) | 365,008 | 160,242 |
| **Power Segment Adjusted EBITDA reconciliation:** | | | | | |
| Net income (loss) attributable to shareholders of Mechel OAO | 16,859 | 1,793 | 3,037 | (13,597) | 6,066 |
| Add: | | | | | |
| Depreciation, depletion and amortization | 14,975 | 16,071 | 22,791 | 16,314 | 579 |
| Foreign exchange gain/(loss) | (28) | (73) | 165 | 228 | 267 |
| Gain/(loss) from remeasurement of contingent liabilities at fair value | | | | | |
| Interest expense | 19,663 | 27,828 | 31,585 | 20,332 | 448 |

| | | | | | |
|---|---|---|---|---|---|
| Interest income | (138) | (57) | | (156) | |
| Net result on the disposal of non-current assets | (930) | (206) | 1,237 | 79 | 7 |
| Amount attributable to non-controlling interests | 4,745 | 2,807 | 2,683 | 2,346 | 835 |
| Income taxes | 5,280 | 5,558 | (5,644) | 3,163 | 2,097 |
| Power Segment Adjusted EBITDA | 60,426 | 53,721 | 55,854 | 28,709 | 10,299 |

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.

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

Adjusted EBITDA does not reflect the impact of foreign exchange gains and losses 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** |
| 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 |
| 2006 | 28.78 | 26.18 | 27.19 | 26.33 |

(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 |
|---|---|---|
| March 2011 | 28.90 | 28.16 |
| February 2011 | 29.80 | 28.94 |
| January 2011 | 30.63 | 29.67 |
| December 2010 | 31.46 | 30.27 |
| November 2010 | 31.35 | 30.51 |
| October 2010 | 30.80 | 29.63 |

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The exchange rate between the ruble and the U.S. dollar on April 12, 2011 was 27.98 rubles per one U.S. dollar.

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

**Recent Developments**

On December 26, 2010 three out of thirty thickeners at the coking coal washing shop of Nerungrinsk Washing Plant, a branch of Yakutugol, collapsed. There were no injuries but the collapse led to suspension of works at the washing shop. Yakutugol took measures to clean up and restore the thickeners. Thickeners are used to clean and recycle the water in the coal washing process. Yakutugol also revised the overburden and extraction plans at the Nerungrinsk open pit to align production with the reduced capacity of the washing plant. Extraction, processing and shipment of steam coal were done in accordance with the existing contracts obligations. On February 10, 2011, coking coal concentrate production in the second and third sections of the washing plant was re-launched. Reconstruction works in the first section are still in progress.

**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 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, 2010, our consolidated total debt, including capital lease obligations, was $7,498.5 million, with a short-term portion of $2,127.5 million. Our interest expense for the year ended December 31, 2010 was $558.4 million, net of the amount capitalized.

In order to secure bank financings, we have pledged shares in certain key subsidiaries, including 55% of Yakutugol, 55% of Southern Kuzbass Coal Company, 35% of Chelyabinsk Metallurgical Plant, 25% of Southern Urals Nickel Plant and 25%+1 share of Beloretsk Metallurgical Plant. Also, property, plant and equipment and certain other assets of our subsidiaries are pledged to lenders.

Our ability to make payments on our indebtedness depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control. If we do not generate sufficient cash flow from operations in order to meet our debt service obligations, we may have to undertake alternative financing plans to alleviate liquidity constraints, such as refinancing or restructuring our debt, reducing or delaying our capital expenditures or seeking additional capital. We cannot provide any assurance that any refinancing or additional financing would be available on acceptable terms. Our inability to generate sufficient cash flow to satisfy our debt service obligations or to refinance debt on commercially reasonable terms could materially adversely affect our business, financial condition, results of

operations and prospects.

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

Our capital investment program is an important part of our business strategy. Our business requires maintenance capital expenditures in order to maintain existing production levels. We spent $1.0 billion during 2010

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(including $227.5 million in maintenance capital expenditures) and our capital investment program includes capital spending of up to $2.4 billion in 2011 (including up to $244.5 million in maintenance capital expenditures). These planned capital expenditures include investments in Yakutugol, including those required to be made pursuant to the terms of the subsoil license for the undeveloped Elga coal deposit. Our capital investment program includes capital spending of up to $4.7 billion for the three-year period of 2011-2013 (including up to $695 million in maintenance capital expenditures). See Item 4. Information on the Company Capital Investment Program. Our ability to undertake and fund planned capital expenditures will depend on our ability to generate cash in the future and access debt and equity financing. This, to a certain extent, is subject to general economic, 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 relative to our free cash flows and pledges of shares and assets of our subsidiaries to our current lenders.

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 require or may be expensive. 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. These and other related events have had a significant impact on the global capital markets, and the reduced liquidity in the global capital markets could limit our ability to diversify our funding sources. Increased funding costs or greater difficulty in diversifying our funding sources might have 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.

*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. We also breached various financial and non-financial covenants in our loan agreements at that time. As of 31 December 2008, our total indebtedness was $5,369.2 million, with a short-term portion of $5,149.4 million, which included $4,233.8 million in loans with covenant violations out of which $1,563.6 million was long-term debt which was reclassified as short-term debt due to loan covenant violations. We had a working capital deficit of $3,596.3 million. 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 continued negotiations with our banks, there was substantial doubt about our ability to continue as a going concern as of June 1, 2009, the date of the issuance of our consolidated financial statements for the year ended December 31, 2008.

In late 2008 and early 2009, to address our liquidity shortage we obtained major loans from Russian state-owned banks. In July 2009, we completed the restructuring and refinancing of our Oriel Resources and Yakutugol facilities with a syndicate of 27 international and Russian banks. We were able to prolong scheduled loan repayments and reset the covenants in order to give us more time and flexibility to meet our debt obligations. Through the course of 2009, we also placed three series of ruble bonds in the total principal amount of 15.0 billion rubles ($503.9 million).

The weakness in the demand and prices for our products through the first half of 2009, however, continued to negatively impact all our segments. As of December 31, 2009, our total indebtedness was $5,997.5 million, an increase of $628.3 million from December 31, 2008. Short-term portion of our total indebtedness was

$1,923.0 million as of December 31, 2009, as compared to $5,149.4 million as of December 31, 2008. Working capital deficit improved to $537.1 million as of December 31, 2009, as compared to $3,596.3 million as of December 31, 2008. As of December 31, 2009, we had breached a number

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of financial and non-financial covenants in various loan agreements but we received appropriate consents and covenant amendments from the banks and as of the date of the issuance of the consolidated financial statements for the year ended December 31, 2009.

During the second half of 2009 and 2010 with a market recovery we have improved our liquidity position and working capital sufficiency as well as remedied our covenants breach. During 2010 and 2011, we further restructured and refinanced our Oriel and Yakutugol acquisition facilities and obtained loans from Russian state-controlled banks and issued Russian bonds. As of December 31, 2010, our total indebtedness was $7,318.4 million, an increase of $1,320.9 million from December 31, 2009. Short-term portion of our total indebtedness was $2,077.8 million as of December 31, 2010 as compared to $1,923.0 as of December 31, 2009. Working capital improved to $491.4 million as of December 31, 2010 as compared to $537.1 million deficit as of December 31, 2009. We expect operating cash flows to provide an increased source of funds in 2011 to be available for capital expenditures and debt servicing. We believe that cash generated from operations, current cash and short-term investments on hand, and borrowings under our credit facilities will be sufficient to meet our working capital requirements, anticipated capital expenditures and scheduled debt payments in 2011. Our ability to incur additional debt, however, is limited by our restrictive covenants. See Item 5. Operating and Financial Review and Prospectus Restrictive Covenants. 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. Any such deterioration, affect or failure could have a material adverse effect on our business, results of operations and financial condition and the trading price of the ADSs and shares.

*Inflation could increase our costs and decrease operating margins.*

In 2010, the inflation rate in Russia was 8.8% and averaged 10.7% over the 2006-2010 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 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 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 a number of Russian and foreign metallurgical plants and trading companies, which are considered related parties under our U.S. GAAP financial statements. See Item 7. Major Shareholders and Related Party Transaction 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 $640.0 million and $57.2 million in the years ended December 31, 2010 and 2009, respectively. Purchases from these companies amounted to $1,228.5 million and $117.8 million in the years ended December 31, 2010 and 2009, respectively. Revenues from re-sales of products

purchased from these companies to third parties amounted to $1,051.1 million and $123.7 million in the years ended December 31, 2010 and 2009, respectively. Substantially all of the revenues from sales to and revenues from re-sales of

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products purchased from these companies were in the steel segment. In the years ended December 31, 2010 and 2009, these revenues represented 30.3% and 5.8%, respectively, of the group s total steel segment revenues. As of December 31, 2010, accounts receivable from these companies totalled $310.9 million, with credit terms varying from 30 to 180 days. In addition, as of December 31, 2010, prepayments to these companies totalled $328.9 million.

As we have a large exposure to these related parties, amounting to $639.8 million as of December 31, 2010, we closely monitor our balances with these companies, including our trade accounts payable to them. No allowance for doubtful accounts has been credited against the accounts receivable from these companies because the group consider the full amount of accounts receivable to be collectible. Nevertheless, given the recent past liquidity issues faced by these companies and the dependency of their businesses on the general condition of the steel sector, we are exposed to the risk of uncollectibility of accounts receivable from and loss of prepayments to these companies, and any material change in our commercial dealings with or loss of accounts receivable from or prepayments to these companies could have a material adverse effect on our business, results of operations and financial condition.

*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.*

Among other things, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially: (1) limit our ability to obtain additional financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) 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.

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 hav listing status A on RTS and 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.

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*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 results 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 2010, the ruble appreciated in real terms against the U.S. dollar by 9.7% as compared with 2009, according to the Central Bank of the Russian Federation.

*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, 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 our lenders accelerate our debt.*

The terms of most of our loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings, covenants and events of default. Additionally, our loan agreements contain cross-default provisions whereby an event of default under one agreement may in and of itself result in a cross-default under other agreements. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources and Item 5. Operating and Financial Review and Prospects Description of Certain Indebtedness. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, dispositions of assets, restructuring, investments into certain of our subsidiaries and others, require prior consent from the respective lenders.

In recent years since the onset of the financial crisis we were in breach of covenants in various loan agreements, but we received appropriate consents and covenant amendments from the banks. As of December 31, 2010, and currently, we do not have any violations of any covenants under our loan agreements which could lead to a demand for accelerated repayment of principal and interest.

Our ability to continue to service, repay and refinance our indebtedness and to comply with our financial and other loan covenants will depend on our ability to generate cash in the future and attract new financing and refinance the existing indebtedness, as well as on lenders credit decisions. This, in turn, is subject to general economic, financial, competitive, legislative and other factors that are beyond our control. We cannot assure you that any potential breach of financial and other covenants in our loan agreements, including defects in security, will not result in new and renewed 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 loan covenants contained in any of our loan agreements, including compliance with financial ratios or fail to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of our breaches of our loan agreements or amend our loan agreements, such failure could be deemed by the lenders to be an event of default which could result in, among other things, acceleration of repayment of principal and interest under the relevant loan agreement and any other loan

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

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

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

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

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

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

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***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 ferroalloy products are primarily used in the manufacture of steel. Thus, market demand for our ferroalloy products is very closely linked with the market for steel and generally follows the cycles of the steel industry.

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.

Prices for our products, including coal, iron ore, metals and power, as well as the prices of coal, iron ore, ferroalloys, power and natural gas and other commodities and materials we purchase from third parties for the production of our products, fluctuate substantially over relatively short periods of time and expose us to commodity price risk. We do not use options, derivatives or swaps to manage commodity price risk. We use our vertically integrated business model and intersegment sales, as well as short-term and long-term purchase and sales contracts with third-party suppliers and customers, to manage such risk. In addition, the length and pricing terms of our sales contracts on certain types of products are affected and regulated by orders issued by Russian antimonopoly authorities. In particular, pursuant to a directive issued to us by the Russian Federal Antimonopoly Service ( **FAS** ) in August 2008, we entered into long-term contracts for supply of certain grades of our coking coal with a formula of price calculation and with fixed volumes for the entire period of the contract. See Antimonopoly regulation could lead to sanctions with respect to the subsidiaries we have acquired or established or our prices, sales volumes or 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 ferroalloy industries are highly competitive, and we may not be able to compete successfully.*

We face competition from Russian and international steel and ferroalloys manufacturers and mining companies. Recent consolidation in the steel and mining sectors globally has also led to the creation of several

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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 21.1% in 2008, 11.0% in 2009 and 9.4% in 2010. 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, 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, 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.

*The financial performance of our mining segment depends on the availability of an adequate supply of coal reserves that can be mined at competitive costs.*

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. 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. Our planned development projects and acquisition activities 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.

*We face numerous uncertainties in estimating our economically recoverable reserves, and inaccuracies in our estimates 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 engineers only

periodically, once in three years. The reserve estimates as to both quantity and quality are

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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 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 coal 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.

For these reasons, estimates of the economically recoverable quantities and qualities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected from particular reserves prepared by different engineers or by the same engineers at different times may vary substantially. Actual tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. These estimates thus may not accurately reflect our actual reserves. Any inaccuracy in our estimates related to our reserves could result in lower than expected revenues, higher than expected costs or decreased operating margins.

In addition, the calculation of reserves of the Elga coal deposit, which we acquired in October 2007 along with our acquisition of Yakutugol, is subject to certain risks due to the license obligations and capital costs involved in developing the required infrastructure and commencing production and the nature of the undeveloped Elga coal deposit.

*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 from our coal assets in the Russian Far East to other countries, particularly Japan, China, South Korea and other Pacific Rim countries. Insufficient capacity of Russian ports generally limits exports by Russian producers. 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.

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

While we intend to continue to operate as an integrated business, if and when a listing of shares takes place in respect of the subsidiary holding companies we are forming or intend to form to consolidate our mining, steel and ferroalloy

assets, changes to the management structure of such subsidiary holding companies and/or the assets consolidated within them may be made in preparation for such a listing. After a listing of a subsidiary holding company, the subsidiary s directors and management would operate the business of such

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subsidiary, in accordance with applicable law, for the benefit of all shareholders, including minority shareholders. In addition, companies listed on stock exchanges comply with certain corporate governance requirements and are encouraged to implement certain corporate governance recommendations, including the appointment of independent directors. These and other changes, if implemented in connection with the consolidation and potential listing of subsidiaries holding our mining, steel and ferroalloy assets, 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 the key to our strategy, changes in decision-making by our subsidiaries directors and management in connection with a listing may materially adversely affect our business, financial condition, results of operations and prospects.

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

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

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.

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

*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 January 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 $50.6 million.

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

In 2010, our Russian operations purchased approximately 6.0 billion kilowatt-hours (kWh) of electricity, representing 88% of their needs, at a total cost of $312.8 million, implying an average cost of 5.2 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 is due to expire in 2011. This could lead to higher electricity prices. According to information published by the Ministry for Economic Development of the Russian Federation the average increase in market prices and tariffs on the retail electricity market was 12.5-14.0% in 2010, and is expected to be in the range of 13.5-16.0% in 2011 and in the range of 12.5-14.0% in 2012. 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 2010, we purchased 1,770.6 million cubic meters of gas at a total cost of $164.7 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 Russian

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Federal Tariff Service set wholesale prices of gas produced by Gazprom for domestic consumers on the territory of the Russian Federation, except for households, in the range of $56.3 to $142.4 per thousand cubic meters, depending on the region of the Russian Federation where the gas is purchased.

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 the Russian Federal State Statistics Service, after adjusting for inflation, the average wage in the Russian Federation has risen at the average annual rate of 8.1% in ruble terms in the 2006-2009 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.

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, an open joint-stock company wholly owned by the Russian government. Russian Railways is a state-sanctioned monopoly responsible for the management of all Russian railroads. The Russian government sets domestic rail freight prices and the terms of transportation, 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.

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, subsidiaries of Russian Railways, 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 10.3 million tonnes in 2010, for which we paid $122.4 million. Mecheltrans has commenced working with Second Freight Company since February 2011.

In 2010, tariffs were indexed once, which resulted in an 9.4% tariff increase. With effect from January 1, 2011, all tariffs have been increased by an additional 8%. 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.

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*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 European Union 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 European Union in 2004 as well as to Romania and Bulgaria, which joined the European Union in 2007. Our sales to third parties in the European Union from our Russian steel facilities constituted approximately 1.6% of our steel segment revenues and approximately 4.9% of our steel segment export revenues in 2010. The export of our steel into the European Union is an important part of our growth strategy. If E.U. quotas are not increased in line with our sales growth objectives, our ability to expand our sales in the European Union and pursue our growth strategy could be limited. In addition, the European Union has imposed antidumping duties on certain of our steel exports.

Our ferroalloys business is also subject to export restrictions. In February 2008, an antidumping duty in the amount of 17.8% was imposed on exports to the European Union of ferrosilicon produced by our subsidiary Bratsk Ferroalloy Plant for a period of five years. Our sales into the European Union constituted approximately 1.6% of our revenues from the ferrosilicon sales and approximately 0.3% of our total ferroalloys segment revenues in 2010.

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.

In August 2007, Russia and Ukraine signed an agreement imposing quotas on the export of Ukrainian steel bars to the Russian market. The total quota of steel bars from Ukraine to Russia was equal to 1,205,000 tonnes during the effective term of the trade agreement and was divided into annual volumes. We believe that we benefited from this agreement because it prevented subsidized Ukrainian exports from reducing the prices we otherwise could obtain for these products in the Russian market. However, the agreement expired on January 1, 2011.

From March 20, 2007 to March 20, 2010, Russia imposed an antidumping duty on corrosion-resistant steel originating in the European Union at the rate of 840 per tonne. This duty benefited us while it was in force. The elimination of this duty had a negative effect on our sales on the Russian market.

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 was in force.

According to available public information, Russia has taken part in negotiations to join the World Trade Organization (the **WTO** ). Russia s potential future accession to the WTO could negatively affect our business, financial condition, results of operations and prospects. In particular, Russia s entry into the WTO may require gradual reduction or

elimination of import tariffs and duties on steel products, causing increased competition in the Russian steel market from foreign producers and exporters.

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

Chemical substances contained in some of our products, as well as by-products and waste, which we export to or produce in the European Union are subject to regulation (EC) No 1907/2006 on registration, evaluation, authorization and restrictions of use of chemicals ( **REACH** ) that entered into force on June 1, 2007. Under REACH, we must provide a registration dossier for such substances to the European Chemical Agency ( **ECHA** ). In accordance with REACH, we pre-registered substantially all the substances that we export to or produce in the E.U. prior to December 1, 2008. In accordance with REACH implementation schedule, prior to December 1, 2010 we registered with ECHA all substances that we export to or produce in the European Union in amount over 1000 metric tonnes per year, and which are subject to REACH registration. We are in compliance with current REACH requirements and we will have to maintain certain resources to ensure compliance with further developing REACH requirements.

REACH provides for a special authorization regime for substances of high concern, including those that are identified from scientific evidence as causing probable serious effects to humans or the environment on a case-by-case basis. To obtain authorization, a manufacturer of substances of high concern is generally required to demonstrate that the risk from the use of the substance is adequately controlled. All substances under the authorization regime are subject to restrictions with respect to manufacture, placing on the market or use. The European Commission may amend or withdraw the authorization, even one given for adequate control, if suitable substitutes have become available. Currently, none of our products contain substances which are considered to be substances of high concern. 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, 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 business operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property.

In particular, hazards associated with our open pit mining operations include, but are not limited to: (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 Lenin Underground Mine (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. Also, in September 2010 we suspended operations at New-Olzherassk Underground Mine due to a spontaneous ignition of coal. We plan to resume coal mining operations at New-Olzherassk Underground Mine at the end of the second quarter of 2011.

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

*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. 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, 2010, we have not created any reserves for environmental liabilities and compliance costs, other than an accrual in the amount of $56.2 million for asset retirement obligations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

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 90-day period. 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. More recently, in March 2011, Rosprirodnadzor, the Russian environmental supervisory authority, claimed 287 million rubles from Chelyabinsk Metallurgical Plant as compensation for damage caused discharging waste water into the river Miass. We are in process of reviewing the claim. 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

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

*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 clean development and trading mechanisms provided under the Kyoto Protocol. The European Union 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 1 January 2005, has had an impact on greenhouse gas and energy-intensive businesses based in the European Union. Our operations in Bulgaria, Lithuania and Romania are currently subject to the EU ETS, as are our EU 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 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.

*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, our reserves categorized as Outside Subsoil License Term Reserves assume that the relevant license will be extended for the term of the expected operational life

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of the 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. 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 license. Nevertheless, there is no assurance that this approach will be consistently applied by the regulatory authorities and the courts and that there will be no changes to this approach in the future. Regulatory authorities exercise considerable discretion in the timing of license issuance, extension of licenses and monitoring licensees compliance with license terms. Subsoil licenses and related agreements typically contain certain environmental, safety and production commitments. See Item 4. Information on the Company Regulatory Matters Subsoil licensing in Russia Maintenance and termination of licenses. If regulatory authorities determine that we have violated the material terms of our licenses, it could lead to rejection in license extension or suspension or termination of our subsoil licenses, and to administrative and civil liability. In addition, requirements imposed by relevant authorities may be costly to implement and result in delays in production. Our subsoil licenses expire on dates falling in 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.

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 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.

*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. 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.

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*If we fail to meet certain deadlines under our subsoil license for Elga it may be suspended or terminated.*

We hold the license to the undeveloped Elga coal deposit in the Sakha Republic, which contains large quantities of export-quality coking and steam coal. As part of the license conditions, as amended in May 2010, we are required to meet certain operational milestones, including the construction of a rail branch line of approximately 315 kilometers in length by December 31, 2011 and completion of construction of the first phase of Elga complex by December 31, 2013. The current construction schedule is very aggressive and, due to limited financing during the period from September 2008 to August 2009 because of the global financial crisis, it may not be achievable. If current construction schedule is not met, our subsoil license for Elga deposit may be suspended or terminated.

*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 66.76% 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 shareholders meeting are adopted by a simple majority at a meeting at which shareholders holding more than half of the voting shares are present or represented. Accordingly, Mr. Zyuzin has the power to control the outcome of most matters to be decided by a majority vote at a shareholders meeting and can control the appointment of the majority of directors and the removal of all of the elected directors. In addition, our controlling shareholder is likely to be able to take actions which require a three-quarters supermajority vote of shares represented at such a shareholders meeting, such as amendments to our charter, reorganization, significant sales of assets and other major transactions, 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 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.

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As of March 31, 2011, nine of our companies were included by the FAS in its register of entities with a market share exceeding 35% in the relevant market or with a dominant position on a certain market, including:

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

*Chelyabinsk Metallurgical Plant* as controlling more than 65% of the market for forgings made of stainless steel ingots in the Russian market;

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

*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, including its subsidiaries Dzhebariki-Khaya Mine OAO* and *Kangalassk Open Pit Mine OAO* as controlling more than 65% of the coal market of the Sakha Republic (an administrative region of Russia in eastern Siberia, also known as Yakutia) and as holding a dominant market position as the sole supplier of Far East Generating Company OAO ( **Far East Generating Company** ), a power plant designed to consume only the type of coal produced by Yakutugol and its subsidiaries. In 2010, Dzhebariki-Khaya Mine OAO and Kangalassk Open Pit Mine OAO were merged into Yakutugol and ceased to exist as separate legal entities. However, respective changes to replace Dzhebariki-Khaya Mine OAO and Kangalassk Open Pit Mine OAO with Yakutugol have not been yet made in the FAS register; 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 on 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 on the Russian coking coal market, to fulfill the following requirements:

to support certain production volumes and product lines;

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

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date such increase is planned to take place, with submission to the FAS of the financial and economic reasoning for the planned increase of prices.

In connection with the establishment of Mechel Mining, the subsidiary into which we consolidated certain of our mining assets, we received a directive from the FAS dated June 23, 2008, which contains requirements as to the activities of Mechel Mining and its subsidiaries Yakutugol and Southern Kuzbass Coal Company, as a group of companies holding a dominant position on 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 on 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 the 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 our transfer of management of Southern Urals Nickel Plant to Mechel Ferroalloys Management and the consolidation of our ferroalloy assets under our subsidiary Oriel Resources, in October 2008 the FAS issued one directive addressed to Mechel Ferroalloys Management and one directive addressed to Oriel Resources, and in November 2008 the FAS issued one additional directive addressed to Mechel and Bratsk Ferroalloy Plant. The requirements under all eight 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, nickel products, 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 on the Russian market of coking coal concentrate. The FAS issued a directive requiring these subsidiaries to: (1) refrain from establishing monopolistically high or low prices; (2) provide, to the extent possible, equal supply terms to all customers without discrimination; (3) submit economic justifications for each coking coal concentrate price increase of more than 5% as compared to the prices of the previous quarter to the FAS, during the next 5 years; (4) reduce sale prices by 15% for the period from September 2008 until December 2008; and (5) offer to conclude long-term supply contracts of at least three years duration with a formula of price calculation and with fixed volumes for the entire period of the contract with consumers of coking coal concentrate. 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 for 2007.

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In the event of breach of the terms of business conduct set forth by the FAS, the FAS may seek to impose fines for violations of antimonopoly and administrative legislation. Such fines may include an administrative fine of 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.

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

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

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

As of December 31, 2010, approximately 65% 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 on coal and mining and metallurgical industry have been signed, we have not yet renewed all our corresponding collective bargaining agreements. If we are unable to update collective bargaining agreements on similar conditions at the expiry of their terms or our employees are dissatisfied with the terms of renewed collective bargaining agreements, any industrial action by our employees 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 are covered by the Bituminous Coal Wage Agreement of 2007 which expires at the end of 2011. We are currently in negotiations with the UMWA with respect to two more of our operations in West Virginia, the employees of which elected in April 2010 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 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 June 30, 2010, the UMWA pension plan s unfunded liability was $4.1 billion. Furthermore, in September 2010, 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, 2010 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

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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 event could result in substantial property loss and inability to rebuild in a timely manner or at all.*

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

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

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

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

Businesses of our group, or their predecessors-in-interest at different times, have taken a variety of actions relating to the incorporation of entities, share issuances, share disposals and acquisitions, mandatory buy-out offers, acquisition and valuation of property, including land plots, interested party transactions, major transactions, decisions to transfer licenses, meetings of governing bodies, other corporate matters and antimonopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant members of our group or their predecessors-in-interest, could result in the invalidation of such actions, transactions and corporate decisions, restrictions on voting rights or the imposition of other liabilities. As applicable laws of Russia, 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.

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***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. 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 .

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. 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.

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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 FAS. See Item 10. 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 (the **Strategic Industries Law** ) dated April 29, 2008, 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) 10% 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 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, 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.

*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 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.

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*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, will be 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.

*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.

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

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

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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 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. See Item 10. Additional Information Taxation Russian Income and Withholding Tax Considerations for additional information.

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

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

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

*Holders of 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 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.

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*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, 58,044,572 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 remaining 55,502,766 preferred shares are held by our wholly-owned subsidiary Skyblock Limited. 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 the Justice Persons disposed some of the preferred shares they held. The 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 ferroalloy industries and equity markets in general. As a result of these factors, investors may not be able to resell their shares or ADSs at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of our shares and ADSs:

Investor perception of us as a company;

Actual or anticipated fluctuations in our revenues or operating results;

Announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings;

Changes in our dividend policy, which could result from changes in our cash flow and capital position;

Sales of blocks of our common shares, common ADSs, preferred shares or preferred ADSs by significant shareholders, including the Justice persons;

Price and timing of any refinancing of our indebtedness;

Potential litigation involving us;

Changes in financial estimates and recommendations by securities research analysts;

Fluctuations in Russian and international capital markets, including those due to events in other emerging markets;

The performance of other companies operating in similar industries;

Regulatory developments in the markets where we operate, especially Russia, Kazakhstan 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.

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***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 7.9% in 2009, the Russian gross domestic product grew by 14.7% in 2010, according to Rosstat. However, the full impact of global economic crisis on 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.

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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 recent turmoil in the international credit markets and the global economic slowdown 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.

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 collectability of accounts receivable or substantial changes in the terms of our suppliers pricing policies or financing terms, or the potential bankruptcy of our customers or contract counterparties may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

and the business case assumed at the time of acquisition could require us to write down the value of the goodwill or portion of such value. See note 2(n) to our consolidated financial statements.

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***Political and social risks***

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

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

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

*Corruption and negative publicity could 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 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.

*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 2010, Rosstat estimated Russia s population at 142 million, a decline of almost seven million from 1992. Although the birth rate recently reached its highest rate in 15 years, the population continues to decline due to a relatively low birth rate, an aging population and low life expectancy. 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

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

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

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

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

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

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

- inconsistencies between and among the Constitution, federal law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of fully developed corporate and securities laws;

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

the relative inexperience of judges in interpreting legislation;

the lack of full independence of the judicial system from commercial, political and nationalistic influences;

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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 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: Coke-Invest, Kaslinsky Architectural Art Casting Plant OOO, Port Kambarka, Metals Recycling, Tikhvin Ferroalloy Plant, Mechel Mining Management, Sky-Extra, Mechel-Remservice, Mechel-Zakazchik, SocResource, Mechel-Region, Mecheltrans Management. Also, the net assets of Mechel Mining are below its current share capital. To cure this, the shareholders have approved the decrease of the share capital and relevant changes to the charter are now being registered.

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.

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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 shareholders meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may hold 75% or more of the voting power if enough minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders meeting, they are in a position to approve amendments to 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

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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 in a manner 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.

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

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

- profits tax;

value-added tax ( **VAT** );

unified social tax;

mineral extraction tax; and

property and land taxes.

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

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

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends paid by Russian companies are subject to a withholding tax of: (1) 0%, if distributed to company which has continuously held not less than a 50% share in the charter capital of the company paying dividends and the cost of acquisition of this share exceeded 500 million rubles (the latter condition expired on January 1, 2011, and does not apply to dividends accrued for 2010 and subsequent periods); (2) 9%, if distributed to other Russian companies and/or individuals who are Russian tax residents; and (3) 15%, if distributed to foreign companies and individuals who are not Russian tax residents. Dividends from foreign companies to Russian companies are subject to a tax of 9%. Taxes paid in foreign countries by Russian companies may be offset against payment of these taxes in the Russian Federation up to the maximum amount of the Russian tax liability. In order to apply the offset, the company is required to confirm the payment of taxes in the foreign country. The confirmations must be authorized by the tax authority of the foreign country if taxes were paid by the company itself, and the confirmation must be authorized by the tax agent if taxes were withheld by the tax agent under foreign tax law or an international tax agreement.

In addition, application of current Russian thin capitalization rules could affect our ability to deduct interest on certain borrowings that we would otherwise be able to deduct. In particular, we may not be able to deduct interest on loans we extend to our subsidiaries or on borrowings which our subsidiaries receive from independent banks and which are guaranteed by us.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts

at compliance. See also Risks Relating to the Russian Federation Legal risks and uncertainties Selective government action could have a material adverse effect on the investment climate in Russia and on our business, financial condition, results of operations and prospects and the value of our shares and ADSs.

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*Vaguely drafted Russian transfer pricing rules expose our business to the risk of significant additional liabilities.*

Russian transfer pricing rules, effective since 1999, give Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject to interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. As of the end of 2007, as a result of various tax audits of our companies we received assessments from the tax authorities for transfer-pricing related taxes, interest and penalties totaling 496 million rubles relating to the years 2004-2005. As a result of tax audits held in 2009, Korshunov Mining Plant was subject to an additional tax assessment of transfer pricing related taxes and incurred penalties in the amount of 73.3 million rubles for the year 2005. Korshunov Mining Plant filed a court claim against the tax authorities seeking the invalidation of this tax assessment. Courts of three instances rejected the claim. Korshunov Mining Plant filed an appeal to the Supreme Arbitrazh Court but the court rejected the claim. See Item 8. Financial Information Litigation Tax. If similar assessments are upheld in the future, our business, financial condition, results of operations and prospects could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties. Under Russian law, tax authorities may review past tax periods relating to the years 2008-2010 and make claims in connection with such reviews. See also Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition, results of operations and prospects and the value of our shares and ADSs and Item 8. Financial Information Litigation Tax.

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

*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 gazette *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 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 on the market of carbonic, alloyed and heat-resistant alloyed stampings. Such products are of a type generally used in the production of weapons and military equipment. Therefore, Urals Stampings Plant may also qualify as a Strategic Company. Furthermore, entities producing and distributing industrial explosives and entities that operate equipment containing radioactive materials are also deemed to be Strategic

Companies. Thus, our subsidiaries Yakutugol and Vzryvprom also qualify as Strategic Companies, as they both hold licenses to produce industrial explosives and Yakutugol, in addition, holds a license to operate equipment containing radioactive materials.

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Therefore, any transfer, directly or indirectly, to a foreign investor or its group of entities of a stake, or certain rights, in Port Posiet, Port Kambarka, Port Temryuk, Southern Urals Nickel Plant, Yakutugol, Vzryvprom 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 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 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 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 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 U.S. Environmental Protection Agency ( **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. Since release of the MOU, very few 404 permits have been issued, and each of those permits that were issued included modifications to the proposed mining

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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.

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 rail road carrier, Norfolk Southern. Disruption of any transportation services due to 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. 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.

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*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, 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 U.S. 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, eleven of the 50 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.

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*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. The U.S. Congress has recently considered, and there are pending, various proposals to reduce greenhouse gas emissions, and EPA recently issued several proposed determinations and rulemakings relating to greenhouse gas emissions from various sources. In the absence of federal legislation, many states and regions have undertaken greenhouse gas initiatives.

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.

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 dangerous mines. 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. 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.

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*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 affect 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. Some of EPA s initiatives to reduce sulfur dioxide, nitrous oxide and mercury emissions have been the subject of litigation in recent years, and EPA continues to address issues raised in court opinions. In addition, several electric utilities have been sued by the government for alleged violations of the Clean Air Act and have faced suits by environmental groups during the initial permitting process for new coal-fired power plants, which has had a chilling effect on the construction of such plants. Both of these activities 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 $9.7 billion in 2010, $5.8 billion in 2009 and $10.0 billion in 2008, with operations organized into four industrial segments: mining, steel, ferroalloys and power, each of which has

a managing company set up to perfrom the functions of respective executive management bodies of the companies within the segment, as described below.

Our mining segment produces metallurgical and steam coal, as well as iron ore and iron ore concentrate, limestone and coke. The segment consists of coal and iron ore mines in Russia and the U.S. Our subsidiary Southern Kuzbass Coal Company and its subsidiaries operate coal mines located in the Kuznetsky basin, near Mezhdurechensk in southwestern Siberia. These mines include four open pit mines and three underground

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mines. Our subsidiary Yakutugol operates coal mines located in the Sakha Republic in eastern Siberia, consisting of two open pit mines and one underground mine. Yakutugol also holds the license to mine the undeveloped Elga coal deposit, which we plan to mine using the open pit method after the completion of the construction of a private rail branch line of approximately 315 kilometers in length, which will connect the Elga coal deposit to the Baikal-Amur Mainline. Our Bluestone subsidiaries operate four mining complexes in West Virginia, United States, consisting of open pit and underground mines.

We also provide coal washing services, both to our coal-mining subsidiaries and to third parties; according to Rosinformugol, a Russian coal industry information agency, at the end of 2010 we controlled 19.2% of Russia s coking coal washing capacity.

Our subsidiary Korshunov Mining Plant operates three open pit iron ore mines: Korshunovsk, Rudnogorsk and Tatianinsk. These mines are located near Zheleznogorsk-Ilimsky, a town in the Irkutsk region in central Siberia.

We also produce significant amounts of coke, both for internal use and for sales to third parties. We have the flexibility to supply our own steel mills with our mining products or to sell such mining products to third parties, depending on price differentials between local suppliers and foreign and domestic customers. In the second quarter of 2010, with the aim of further optimizing the structure of our group, we transferred our coke producing subsidiaries Moscow Coke and Gas Plant and Mechel-Coke from our steel segment to the mining segment.

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

Mechel Mining Management as a wholly-owned subsidiary of Mechel Mining acts as the executive body of the majority of our subsidiaries in the mining 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 two integrated steel mills, 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 European Union, including a wire products plant in Lithuania and five steel mills in Romania.

Mechel-Steel Management as a wholly-owned subsidiary of Mechel OAO acts as the 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.

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 Bratsk Ferroalloys Plant (a ferrosilicon producer) in 2007. In April 2008, we completed the acquisition of 99.3% of Oriel Resources from its shareholders in a public offer conducted under the U.K. Takeover Code. 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 ferroalloy assets in Oriel Resources. Oriel Resources now owns a 100% interest in Bratsk Ferroalloys Plant, an 84.06% interest in Southern Urals Nickel Plant, and holds through its subsidiaries 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

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pit nickel ore mines, Sakhara and Buruktal. Mechel Ferroalloys Management acts as the executive body of the companies in our ferroalloys 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 executive body of Southern Kuzbass Power Plant and Kuzbass Power Sales Company in our power segment.

Our group includes a number of logistical and marketing companies that help us to deliver and market our mining products, raw steel, manufactured steel goods and ferroalloy products. We have freight seaports in Russia on the 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 pool, and we have begun building a private rail branch line to access our Elga coal deposit in Yakutia. In 2009 we started to build up our own truck fleet.

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 47 regional offices.

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 August 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 CT Corporation System, 111 Eighth Avenue, New York, New York 10011 as our authorized agent upon which process may be served for any suit or proceeding arising out of or relating to our shares and ADSs or the ADS deposit agreements.

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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) Limited ( **AME** ) we were the sixth largest metallurgical coal producer and the eighth largest metallurgical coal exporter in the world in 2010.

In 2010, we were the largest coking coal producer in Russia with a 22.2% market share in the coking coal market in Russia by production volume, according to the 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 69.0% market share in 2010, according to the Central Dispatching Department. In 2010, 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. According to Rosinformugol, we also control 19.2% of Russia s coking coal washing capacity by volume.

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

Our total coking coal reserves, accounted as per the SEC Industry Guide 7, in Russia amounted to 688.3 million tonnes as of December 31, 2010.

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 and 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, in 2010, 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 the 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 2010 was approximately 27.8%, 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 26.9% of Russia s total specialty steel output in 2010. 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 36.5% of Russia s total wire

products output in 2010. 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, 81% self-sufficient with respect to ferroalloys (FeSi, FeNi, FeCr), and 8.6% 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 2010, we internally sourced 62% of the nickel, 99% of the ferrosilicon and 67% of the ferrochrome requirements of our steel segment. In 2010, we satisfied approximately 27% 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 Russia s 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 the second half of 2012 will enable us to expand the cargo-handling capacity of the port up to 7.0-9.0 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 preparing a feasibility study for construction of a specialized coal transshipment seaport at Vanino in Russia s Far East with a capacity of up to 25.0 million tonnes per year.

As of December 31, 2010, our subsidiary Mecheltrans owned and leased more than 4,642 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 began construction on a private rail branch line, which we will own and control subject to applicable regulation. This rail branch line will connect the Elga coal deposit to Ulak Station on the

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Baikal-Amur Mainline, which in turn connects to the Transsiberian Railway, serving European Russia west of the Ural Mountains and eastward to the Pacific Ocean. We anticipate that the Elga rail branch line will not only provide an avenue for delivery of coal produced at the Elga coal deposit, but will eventually serve as the primary transportation corridor for coal, iron ore and other raw materials mined in nearby deposits. The rail branch line will be approximately 315 kilometers long. We need to complete construction of 60 kilometers of railway embedded in 2000-2003 by the Russian Railways, to construct 250 kilometers of new railway and construct 77 railway bridges. As of January 1, 2011, we have built the railway until the 124th kilometer point, constructed 33 railway bridges and commenced construction of another 18 railway bridges, as well as completed construction of an access road to the Elga deposit. In August 2010, we reallocated our mining machinery and commenced overburden mining and construction of capital mining facilities and buildings at the Elga coal deposit.

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. In 2010, we acquired new trucks for our offices in Ufa, Krasnodar, Tyumen, Kazan, Nizhny Novgorod and Samara. We also continue to renew our truck fleet in Germany. In 2010, we have launched a project on acquisition of truck vehicles in Romania.

***One of the lowest-cost metallurgical coal producers worldwide***

According to AME, our Russian metallurgical coal operations are in the first and second quartiles of the global cash cost curve. Approximately 78.7% of our coking coal production is mined from open pit mines, which we believe is a greater percentage than any of 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.*

Our eastern Siberian coal mines of Yakutugol and its undeveloped Elga coal deposit 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 our mining and logistical assets to key fast-growing economies as a key competitive advantage which allows us to diversify our sales, provides us with additional growth opportunities and acts as a hedge in the event of a decrease in demand from customers in Russia. 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 West Virginia 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 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

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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 2010 was approximately 27.8%.

***Established distribution and sales platform***

Our Mechel Service Global distribution platform in Russia has 71 storage sites in 46 cities throughout Russia to serve a broad range of end customers. Fourteen 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 10 offices, which allows us to improve service quality for small companies and individuals, as well as to obtain additional margins. At our production facilities in the Samara region a project for production of welded corrugated beams and constructions for easy set buildings was launched. In 2011, we are planning to continue developing these areas. 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 2010, we have launched new service centers for processing of high-quality rolled steel products. Currently, we have in total 126 storage sites and service centers in CIS and Europe, servicing more than 20,000 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. Until recently we were Russia s only integrated steel producer with its own developed distribution network.

Mechel Service Global sales accounted for 36.1% of our steel segment sales and 20.7% of our total sales in 2010. More than 95% of Mechel Service Global sales was sold domestically. Sales to companies within the group accounted for 3.1% of the total sales of Mechel Service Global in 2010.

We also have a non-retail sales and distribution network represented by our Swiss subsidiaries Mechel Trading AG and Mechel Carbon AG with offices in four countries and agents in five additional countries. This network facilitated sales constituting 33.9% of our total sales in 2010, 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.

Our successful track record of identifying, acquiring and integrating target companies that complement our group is due in part to our clearly defined investment criteria, prudent approval procedures and our time-tested ability to identify synergies in target assets that can be quickly implemented while at the same time moving forward with our

longer-term strategic goals. Our acquisition program evaluates potential targets to determine whether they conform to our long-term strategy to shift our product mix up the value chain, expand our mining asset base, expand into new markets and strengthen our position in existing markets and reduce costs through improved management and intra-group synergies. With each of our acquisitions, we aim to implement improved operational and management practices. We also analyze each acquisition to determine the minimum capital expenditures necessary to achieve our target increases in productivity and efficiency, both on

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

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.

***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 24 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:

***Enhancing our position as a leading mining, metals and ferroalloys group***

*We plan to develop our existing reserves base.*

We intend to build on our substantial mining experience by developing our existing coal and iron ore reserves, particularly in order to sell more high-quality coking coal and iron ore concentrate to third parties. We currently plan to increase our annual coal production from 28.0 million tonnes in 2010 to 39.8 million tonnes in 2013, and maintain our iron ore concentrate production at the level of at least five million tonnes, with a potential increase in iron ore production of up to 10-12% by 2013 resulting from upgrades at the Korshunov Mining Plant. See Capital Investment Program. We intend to expand the production of the Voskhod chrome ore deposit to 1.3 million tonnes per year and to start the exploration of nickel ores at the Shevchenko deposit in Kazakhstan. We plan to further develop our ferroalloy production at Bratsk Ferroalloy Plant through mining quartzite, a raw material for ferrosilicon production, at the Uvatskoye deposit in the Irkutsk region.

We intend to develop the coking and steam coal reserves of Yakutugol. Yakutugol, which has three producing mines as well as two licenses for the undeveloped Elga coal deposit and the Piatimetrovy and Promezhutochny II coal seams, 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 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 the private rail branch line we are constructing to deliver Elga s future coal production to the market.

*We intend to increase our group s output of high-value-added steel products and continue to optimize our product mix with a view to increase steel margins.*

We plan to continue our strategy of selectively investing in technology and equipment modernization, including expanding the use of continuous casters (concasters) in our steel manufacturing facilities, optimizing our product catalog and cutting production costs with a view to increase steel margins.

Our ongoing plant modernization program is aimed at maintaining capacity at the present level, increasing efficiency and reducing the environmental impact of our operations. In line with this strategy, in 2008 through 2010 we completed modernization of production facilities at Chelyabinsk Metallurgical Plant,

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Izhstal and Urals Stampings Plant. In continuation of this strategy in 2011 and beyond, we aim to complete projects to construct the universal rail and structural rolling mill and reconstruct the oxygen-converter shop at Chelyabinsk Metallurgical Plant, modernize rolling mill No. 250 at Izhstal and commission additional facilities at Urals Stampings Plant. See Capital Investment Program.

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

Our strategy involves finding acquisition and expansion opportunities that we believe will reinforce or complement our existing business lines. We actively monitor global mining, steel and ferroalloys markets for new opportunities.

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

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

***Maintaining a high degree of vertical integration***

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

The expansion of our ferroalloy mining, processing and manufacturing capacity, with the acquisition of Bratsk Ferroalloy Plant (which produces ferrosilicon used in all steel manufacturing) and the Oriel Resources assets (which mines and processes ferroalloys used to make steel), is consistent with our strategy of maintaining the potential to source our raw material requirements for manufacturing higher value-added steel products. We have expanded our power generation and distribution business, and we see expansion of our power capabilities not only as a diversification measure and a way to market another value-added product made from our coal, but also as a way to have more control over our energy efficiency and hedge against increases in the price of the electricity which is used by our facilities. 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. The Bluestone acquisition enlarges 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, if needed because of market conditions.

*We plan to expand our logistical capabilities.*

We intend to selectively expand our logistics capabilities. We have engaged project engineers to carry out works on the design and construction of the Elga rail branch line and of the Port Vanino complex. 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 West, 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.

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*We will leverage synergies among our core businesses.*

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

***Continuing expansion in high-growth markets***

*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. We further plan to expand production at our Bluestone operations to export coking coal to fast-growing South American markets including Brazil.

*Further develop 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 the financial crisis, Mechel Service Global s operations in Europe were limited to Germany, Romania and Belgium. In 2009 Mechel Service Global expanded its distribution network to the Netherlands, Serbia, Bulgaria and Italy. In 2010 we established subsidiaries in the UK, France and Hungary and acquired companies in the Netherlands, the Czech Republic and Turkey. We plan to further expand our Mechel Service Global network.

**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, Kazakhstan 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.

After the recent 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 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 If shares of our subsidiary holding companies are listed on a stock exchange, it could entail changes in

such companies management and corporate governance that might affect our integrated business model.

**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 iron ore, iron ore concentrate, limestone and coke. Our coal operations consist of Southern Kuzbass Coal Company, Yakutugol and Bluestone, which together produced 18.5 million tonnes of coking coal and 9.5 million tonnes of steam coal in 2010. Our coke operations consist of Moscow Coke and Gas Plant and

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Mechel-Coke, which together produced 3.9 million tonnes of coke in 2010. Our iron ore operations consist of Korshunov Mining Plant which produced 11.1 million tonnes of iron ore and 4.2 million tonnes of iron ore concentrate in 2010. Our limestone operations consist of Pugachev limestone quarry which produced 1.9 million tonnes of limestone in 2010.

***Description of key products***

*Coking coal and metallurgical coal.* Southern Kuzbass Coal Company produces high rank bituminous coal, which is washed to reduce the ash content. The premier product is a good quality, low phosphorous, low sulphur 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 coal 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 higher 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.

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

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

***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 iron ore mines 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

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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.

*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. The crushed limestone is separated into three product categories for sale: 0-20 millimeters, 20-40 millimeters and 40-80 millimeters.

***Coal production***

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 earliest production at our Kuznetsky basin mines was in 1953, and 1979 in our Sakha Republic mines. The table below summarizes our coal production by mine and type of coal for the periods indicated.

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| **Mine[1]** | **Tonnes** | **% of Production** | **Tonnes** | **% of Production** | **Tonnes** | **% of Production** |
| | | | **(In thousands of tonnes)[2]** | | | |
| **Coking Coal** | | | | | | |
| Sibirginsk Open Pit | 2,100 | 11.3% | 1,446 | 14.1% | 2,522 | 16.6% |
| Tomusinsk Open Pit | 1,961 | 10.6% | 1,337 | 13.1% | 1,952 | 12.9% |
| Olzherassk Open Pit | 596 | 3.2% | 505 | 4.9% | 614 | 4.1% |
| Lenin Underground[3] | 1,328 | 7.1% | 1,253 | 12.2% | 1,130 | 7.5% |
| Sibirginsk Underground | 1,086 | 5.9% | 408 | 4% | 876 | 5.8% |
| Nerungrinsk Open Pit[4] | 7,409 | 40.0% | 3,020 | 29.5% | 8,053 | 53.1% |
| Keystone Mining Complexes[4] | 1,985 | 10.7% | 1,066 | 10.4% | | |
| Justice Energy Mining Complex[4] | 1,042 | 5.6% | 637 | 6.2% | | |
| Dynamic Energy Mining Complex[4] | 1,035 | 5.6% | 571 | 5.6% | | |
| Total Coking Coal | 18,542 | 100% | 10,243 | 100% | 15,147 | 100% |
| **Steam Coal** | | | | | | |
| Krasnogorsk Open Pit | 5,236 | 55.2% | 2,867 | 38.0% | 5,525 | 49.1% |
| Sibirginsk Open Pit | 759 | 8.0% | 714 | 9.5% | 797 | 7.1% |
| Olzherassk Open Pit | 492 | 5.2% | 55 | 0.7% | 525 | 4.7% |
| Tomusinsk Open Pit | 53 | 0.6% | 61 | 0.8% | 99 | 0.9% |
| New-Olzherassk Underground | 376 | 4.0% | 917 | 12.2% | 836 | 7.4% |
| Nerungrinsky Open Pit[4] | 1,227 | 12.9% | 2,205 | 29.3% | 2,874 | 25.5% |
| Kangalassk Open Pit[4] | 144 | 1.5% | 199 | 2.6% | 166 | 1.5% |
| Dzhebariki-Khaya Underground[4] | 541 | 5.7% | 377 | 5.0% | 423 | 3.8% |
| Keystone Mining Complexes[4] | 220 | 2.3% | 6 | 0.1% | | |
| Justice Energy Mining Complex[4] | 107 | 1.1% | 12 | 0.1% | | |
| Dynamic Energy Mining Complex[4] | 331 | 3.5% | 126 | 1.7% | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total Steam Coal | 9,486 | 100% | 7,539 | 100% | 11,245 | 100% |
| Total Coal | 28,028 | | 17,782 | | 26,392 | |
| % Coking Coal | | 66.2% | | 57.6% | | 57.4% |
| % Steam Coal | | 33.8% | | 42.4% | | 42.6% |

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(1) Underground denotes an underground mine; Open Pit denotes a surface mine.

(2) Volumes are reported on a wet basis.

(3) Production at the Lenin Underground Mine was negatively impacted in 2008 because of accidents: on May 30, 2008 there was a cave-in (suspension of operation for 17 calendar days) and on July 29, 2008 there was a methane flash (suspension of operation for 67 calendar days). Both accidents involved multiple casualties.

(4) Includes only post-acquisition production volumes.

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.

Our coking coal concentrate production amounted to 11.5 million tonnes in 2010 and 7.4 million tonnes in 2009.

We also produce other types of metallurgical coal such as anthracite concentrate and PCI coal. The table below summarizes our production of anthracite concentrate and PCI coal for the periods indicated.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Anthracite concentrate | 1,087.3 | 687.0 | 702.1 |
| PCI coal | 905.0 | 11.5 | |

*Russian Coal Mines*

All of the Southern Kuzbass Coal Company mines are located in the southeast portion of the Kuznetsky Basin in the Kemerovo region, Russia. Southern Kuzbass Coal Company operations are located around Mezdurechensk with the exception of Erunakovsk, which is located northeast of Novokuznetsk. Each of the Southern Kuzbass Coal Company mines, with the exception of Erunakovsk, have railway spurs connected to the Russian rail system, which is controlled by Russian Railways.

Nerungrinsk Open Pit is located in the southern part of the Sakha Republic in eastern Siberia, south of the capital of Yakutsk near the town of Nerungri. Nerungrinsk Open Pit has a railway spur connected to the Russian rail system, which is controlled by Russian Railways.

The Elga project is located in the Sakha Republic and 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.

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

| | License | Year |
|---|---|---|

| Mine[1] | License Area | License-Holding Subsidiary | Expiry Date | Status[2] | Area (sq. km) | Production Commenced |
|---|---|---|---|---|---|---|
| Krasnogorsk Open Pit | Tomsk, Sibirginsk | Southern Kuzbass Coal Company OAO | Dec 2013 | In production | 22.4 | 1954 |
| Krasnogorsk Open Pit | Sorokinsk, Tomsk, Sibirginsk | Southern Kuzbass Coal Company OAO | Nov 2025 | In production | 2.8 | 2007 |
| Lenin Underground | Olzherassk | Southern Kuzbass Coal Company OAO | Nov 2013 | In production | 10.0 | 1953 |
| Lenin Underground (Usinsk Underground) | Olzherassk | Southern Kuzbass Coal Company OAO | Dec 2014 | In development[3] | 3.6 | 1965 |
| Olzherassk Open Pit | Raspadsk, Berezovsk, Sosnovsk | Southern Kuzbass Coal Company OAO | Jan 2014 | In production | 9.3 | 1980 |
| Olzherassk Open Pit | Raspadsk | Southern Kuzbass Coal Company OAO | Dec 2024 | In production | 3.5 | 2007 |

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| Mine[1] | License Area | License-Holding Subsidiary | License Expiry Date | Status[2] | Area (sq. km) | Year Producti Commen |
|---|---|---|---|---|---|---|
| Olzherassk Open Pit | Berezovsk-2, Berezovsk, Olzherassk | Southern Kuzbass Coal Company OAO | Dec 2024 | In production | 4.8 | 2007 |
| New-Olzherassk Underground (formerly Invest-Coal) | Raspadsk | Southern Kuzbass Coal Company OAO | Dec 2021 | In production | 1.2 | 2008 |
| New-Olzherassk Underground | Olzherassk-2, Raspadsk | Southern Kuzbass Coal Company OAO | Jan 2030 | In production | 0.03 | 2010 |
| New-Olzherassk Underground | Razvedochny, Raspadsk | Southern Kuzbass Coal Company OAO | Nov 2025 | In development | 14.6 | n/a |
| Sibirginsk Underground | Sibirginsk, Tomsk | Southern Kuzbass Coal Company OAO | Dec 2024 | In production | 5.9 | 2002 |
| Sibirginsk Open Pit | Sibirginsk, Kureinsk, Uregolsk | Southern Kuzbass Coal Company OAO | Jan 2014 | In production | 17.7 | 1970 |
| Tomusinsk Open Pit | Tomsk | Tomusinsk Open Pit Mine OAO | Dec 2012 | In production | 6.7 | 1959 |
| Erunakovsk-1 Underground | Erunakovsk-1, Erunakovsk | Southern Kuzbass Coal Company OAO | Jun 2025 | In development[3] | 8.4 | n/a |
| Erunakovsk-3 Underground | Erunakovsk-3, Erunakovsk | Southern Kuzbass Coal Company OAO | Jun 2025 | In development[3] | 7.1 | n/a |
| Olzherassk Underground | Olzherassk | Southern Kuzbass Coal Company OAO | Nov 2025 | In development[3] | 19.2 | n/a |
| Nerungrinsk Open Pit | Nerungrinsk | Yakutugol OAO | Dec 2014 | In production | 15.3 | 1979 |
| Kangalassk Open Pit | Kangalassk | Yakutugol OAO | Dec 2014 | In production | 7.7 | 1962 |
| Dzhebariki-Khaya Underground | Dzhebariki-Khaya | Yakutugol OAO | Dec 2013 | In production[3] | 14.8 | 1972 |
| Nerungrinsky Open Pit | Piatimetrovy and Promezhutochny II coal seams | Yakutugol OAO | Dec 2025 | In development[3] | 30.0 | n/a |
| Elga Open Pit | Elga | Yakutugol OAO | May 2020 | In development | 144.1 | n/a |

(1) Underground denotes an underground mine. Open Pit denotes a surface mine.

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

preparation and approval of construction project documentation (for the Elga license area) and construction (for the Erunakovsk-1 and Elga license areas).

(3) Not included in our mineral reserves.

In October 2007, we acquired 75% less one share of Yakutugol, a coal producer located in eastern Siberia, in the Sakha Republic, increasing our stake to 100%. Yakutugol consists of the Kangalassk Open Pit, the Nerungrinsk Open Pit and the Dzhebariki-Khaya Underground Mine and also owns a coal license for the Piatimetrovy and Promezhutochny II coal seams. Yakutugol extracts predominantly coking coal, as well as steam coal. The Nerungrinsk mine produces high-quality coking and steam coal. The Kangalassk mine produces steam coal that is sold as fuel for power plants in the Sakha Republic. The Dzhebariki-Khaya mine produces steam coal, most of which is sold to the state housing and municipal services administration. Yakutugol sells most of its output to the Asian Pacific region, primarily to Japan, South Korea and China, mostly pursuant to annual contracts.

Together with our acquisition of Yakutugol, we also acquired 68.86% of the shares of Elgaugol, which at the time of the acquisition held the license to the undeveloped Elga coal deposit in the Sakha Republic. After

our acquisition of Elgaugol, the Elga mining license was transferred to Yakutugol effective as of the end of the first quarter of 2008. According to the license conditions, as amended in May 2010, we are required to meet certain operational milestones: (1) completing the legal permits for development of the Elga coal deposit by June 30, 2010 (a plan of initial mine block development was approved by the state authorities on June 30, 2010); (2) commencing construction of the mining plant in November 2009 (we commenced construction of the initial mine block of Elga open pit mine in November 2009); (3) completing construction of the first phase of Elga complex by December 31, 2013 and commencing coal production by November 30, 2010 (we commenced overburden mining at the initial mine block of Elga open pit mine in November 2010); (4) reaching an estimated annual coal production capacity of 9.0 million tonnes in July 2013; and (5) reaching targeted annual coal production of 18 million tonnes by July 2018. In addition, we undertook the obligation to build a rail branch line of approximately 315 kilometers in length, from the Ulak station on the Baikal-Amur Mainline up to the Elga coal deposit by December 31, 2011. See Item 5. Operating and Financial Review and Prospects Contractual Obligations and Commercial Commitments. We will operate this rail branch line as a private railway. However, according to Russian law, once we complete the railroad, we will have to share excess capacity with third parties.

On March 25, 2008, our subsidiary Yakutugol entered into a turn-key contract with Transstroy ZAO Engineering Corporation ( **Transstroy** ). Under this contract Transstroy undertakes to perform engineering survey works, handle the permitting process and design and build a rail branch line to the Elga coal deposit from the Baikal-Amur Mainline. Yakutugol s obligation is to ensure timely payment, including advances, and build a temporary access road. In September 2009, due to failure to meet certain construction deadlines, we appointed our subsidiary Metallurgshakhtspetsstroy as the general contractor for the rail road construction instead of Transstroy and formed Mechel-Customer United Directorate OOO. Since October 2010, Yakutugol has performed the functions of technical customer in order to ensure closer supervision over the construction process and to obtain required permits. These measures allowed us to advance the construction process and reduce costs of construction works. Pursuant to the agreements currently in effect, in November 2010 we completed construction of an access road to the Elga deposit and in August 2011 we plan to commence temporary transportation of coal products on the rail road from the 209th kilometer point. We plan to complete the construction of the rail road to the Elga coal deposit and to open cargo transportation by December 31, 2011.

In August 2010, Mechel OAO entered into a cooperation agreement with OJSC FGC UES and JSC RusHydro where we agreed on the general principles and forms of cooperation in relation to Elga coal deposit and Nizhne-Bureyskaya water power plant projects. According to the cooperation agreement, Mechel is to complete the electricity-receiving infrastructure at the Elga coal deposit, RusHydro is to construct the Nizhne-Bureyskaya water power plant which is to provide electricity for Elga, and FGC UES is to develop and implement the network to distribute electricity from Nizhne-Bureyskaya water power plant to Elga.

In 1994 Sibirginsk Open Pit Mine (currently a branch of Southern Kuzbass Coal Company) received a coal license to develop the mineral deposits of the Uregolsky 1-2 area. Approximately 1.1 million tonnes of coal have been mined by us since that date at the mine site in the license area. Due to what we believe was a technical error made when the license was originally issued, there is an uncertainty as to whether the Uregolsk license area includes a part of the mine site with 37 million tonnes of coal deposits (the **New Uregolsk license area** ). Applicable Russian regulations lack a procedure for correcting license boundaries in the event of an error, and as recently as 2006, 2007 and 2008, we carried out mining activities on the New Uregolsk license area in coordination with, and with the knowledge of, Rostekhnadzor. Furthermore, Southern Kuzbass Coal Company participated in an auction aimed at resolving the title to the New Uregolsk license area. The auction was concluded on June 26, 2008. Southern Kuzbass Coal Company submitted its bids against competing bidders until it believed that the higher bidder s price was not economically justified in light of the estimated reserves in the license area. The final price was significantly higher than Southern Kuzbass Coal Company s last bid. However, the winner of the auction failed to pay and the results of the auction were cancelled by the state authorities. In March 2011, a new tender was held for the right to use the New Uregolsk license

area and Southern Kuzbass Coal Company participated in the tender and was granted the right to use the New Uregolsk license area. We expect to receive the license for New Uregolsk in July 2011. Meanwhile,

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we were involved in certain proceedings related to the usage of the mineral deposits on the New Uregolsk license area. For more information see Item 8. Financial Information Litigation New Uregolsk license area. Currently, no mining activity is conducted in the New Uregolsk license area. We believe that the coal mining at the New Uregolsk license area was in compliance with all applicable laws. Our subsidiary Southern Kuzbass Coal Company could face civil claims; however, we consider it unlikely that such claims will be made. Our mineral reserves as set forth in this document as of December 31, 2010 do not include minerals within the New Uregolsk license area.

*U.S. coal mines*

Our U.S. coal mines are primarily located within the central portion of the Appalachian Plateau physiographic province, which is a broad upland that extends from Alabama through Pennsylvania. The properties are located in McDowell and Wyoming counties, West Virginia, and are underlain by carboniferous sediments of the Appalachian Basin. This region is operated by the Norfolk Southern railroad and is in close proximity to a large river route by which the coal is transported to the ports in Virginia and the Mexican Gulf ports. The Bluestone properties have four mining complexes, Keystone No. 1 and No. 2 ( **Keystone Mining Complexes** ), Justice Energy and Dynamic Energy, together comprising five open pit and twelve underground mines.

The Keystone Mining Complexes consists of 28,328 hectares, of which 4,975 hectares are owned, 7,910 hectares are leased on the basis of long term leases expiring from 2031 to 2032 and 15,443 hectares are leased in perpetuity. The mines produce premium quality low volatile coking coal. During the past several years, the Keystone No. 1 Complex has consisted of three open pit, two underground and one highwall mine, a preparation plant and a rail loadout facility served by the Norfolk Southern Railroad. We constructed a new preparation plant at the Keystone Mining Complex No. 2 in 2010 and we plan to construct a loadout facility at the Keystone Mining Complex No. 2 and to start production from the two new underground mines and an open pit mine in 2011.

The Justice Energy complex consists of 7,485 hectares, of which 602 hectares are owned, 1,334 hectares are leased on the basis of long term leases expiring from 2018 to 2019 and 5,549 hectares are leased in perpetuity. Production from the Justice Energy Complex was sold predominantly as medium-volatile coking coal. The complex includes a surface mine and an underground mine, a preparation plant and a rail loadout facility served by the Norfolk Southern Railroad. Additional development plans provide for three underground mines within the Justice Energy surface mine permit. These mines are also expected to produce premium medium volatile coking coal.

The Dynamic Energy Mining Complex utilizes approximately 2,980 hectares, which are leased in perpetuity. The complex includes a surface mine and an underground mine, a coal preparation plant and a rail loadout facility which is served by the Norfolk Southern Railroad. More underground mining operations are planned at the Coal Mountain property which is part of the Dynamic Energy Mining Complex. It is anticipated that these future mining operations will consist of no fewer than three continuous miner sections or two miner units with a single longwall unit. Production from these mines is expected to be premium high volatile coking coal.

In 2010 Bluestone produced 3.1 million tonnes of clean equivalent coal.

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The table below sets forth certain information regarding the mining permits used by our U.S. coal mines.

| Mining Complex | Mines and Mining Method[1] | Mining Permit Expiry Date | Status[2] | Year Production Commenced |
|---|---|---|---|---|
| Keystone Mining Complexes | 3 Open Pit | 2011 to 2014 | In production | 2001 |
| | 6 Underground | 2013 to 2015 | 2 In production | 1998 |
| | | | 4 Idle | |
| Justice Energy Mining Complex | 1 Open Pit | 2012 | In production | 1982 |
| | 5 Underground | 2011 to 2014 | Idle | 2004 |
| Dynamic Energy Mining Complex | 1 Open Pit | 2012 | In production | 1997 |
| | 1 Underground | 2012 | Idle | 2007 |

(1) Underground denotes an underground mine; Open Pit denotes a surface mine.

(2) In production refers to sites that are currently producing coal. Idle denotes a mine which is planned to be productive in the future but temporarily neither active nor being developed.

***Mine Safety Disclosure***

The following information on certain mine safety results is presented for each underground coal mine, surface coal mine, and coal preparation and loading facility owned and operated by Mechel or its subsidiaries in the United States, for the annual period ended December 31, 2010 as reflected in the mine data retrieval system maintained by MSHA:

| MSHA Mine Identification Number | 104(a) S&S | 104(b) | 104(d)(1)/ (No. of S&S) | 104(d)(2)/ (No. of S&S)[2] | 107(a) | Proposed Penalties In U.S. dollars[1] | Fatalities | Pending Legal Actions[3] |
|---|---|---|---|---|---|---|---|---|
| 4608884 | 53 | 0 | 0 | 6 / (8) | 0 | 62,314 | 0 | 8 |
| 4609020 | 59 | 0 | 0 | 14 / (8) | 0 | 161,533 | 0 | 9 |
| 4609227 | 1 | 0 | 0 | 0 | 0 | 1,171 | 0 | 4 |
| 4608769 | 0 | 1 | 0 | 0 | 0 | 276 | 0 | 2 |
| 4608779 | 0 | 0 | 0 | 0 | 0 | n/a | 0 | 0 |
| 4609024 | 1 | 0 | 8 / (8) | 0 | 0 | 46,414 | 0 | 1 |
| 4609031 | 0 | 0 | 0 | 0 | 0 | 100 | 0 | 1 |
| 4609123 | 1 | 0 | 2 / (2) | 0 | 0 | 5,000 | 0 | 1 |
| 4608990 | 3 | 0 | 0 | 0 | 0 | 3,880 | 0 | 4 |
| 4608684 | 2 | 0 | 0 | 0 | 0 | 4,207 | 0 | 4 |
| 4609062 | 14 | 0 | 0 | 2 / (2) | 0 | 20,908 | 0 | 3 |
| 4606578 | 42 | 1 | 1 / (1) | 0 | 0 | 38,652 | 0 | 7 |
| 4603404 | 0 | 0 | 0 | 0 | 0 | 200 | 0 | 2 |
| 4609315 | 2 | 0 | 0 | 0 | 0 | 2,666 | 0 | 3 |
| 4609131 | 10 | 0 | 3 / (3) | 0 | 0 | 1,715 | 0 | 3 |
| 4609316 | 0 | 0 | 0 | 0 | 0 | n/a | 0 | 0 |
| 4603444 | 71 | 0 | 52 / (50) | 3 / (3) | 0 | 134,552 | 0 | 9 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 4602446 | 0 | 0 | 0 | 0 | 0 | 300 | 0 | 2 |

Source: United States Mine Safety and Health Administration s Data Retrieval System.

(1) Amounts included are the total U.S. dollar value of proposed or outstanding assessments received from MSHA regardless of whether the assessment has been challenged or appealed, for citations and orders occurring during the 12-month period ended December 31, 2010.

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(2) Pattern or Potential Pattern of Violations. For the 12-month period ended December 31, 2010, none of our operations received written notice from MSHA of (i) a pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Act; or (ii) the potential to have such a pattern.

(3) Includes all legal actions pending before the Federal Mine Safety and Health Review Commission, together with the Administrative Law Judges thereof, for each of our operations. These actions may have been initiated in prior quarters. All of the legal actions were initiated by us to contest citations, orders, or proposed assessments issued by MSHA, and if we are successful, may result in the reduction or dismissal of those citations, orders, or assessments.

*Section 104(a) S&S Violations.* The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Mine Act for which the operator received a citation from MSHA;

*Section 104(b) Orders.* The total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a violation under section 104 within the period of time prescribed by MSHA;

*Section 104(d) Citations and Orders.* The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Act;

*Section 110(b)(2) Flagrant Violations.* The total number of flagrant violations under section 110(b)(2) of the Mine Act.

*Section 107(a) Imminent Danger Orders.* The total number of imminent danger orders issued under section 107(a) of the Mine Act;

*Proposed MSHA Assessments.* The total U.S. dollar value of proposed assessments from MSHA under the Mine Act; and

*Fatalities.* The total number of mining-related fatalities.

***Coal washing plants***

We operate five coal washing plants located near our coal mines in Southern Kuzbass and one coal washing plant located near Yakutugol. All of the coal feedstock enriched by our washing plants in 2010 (23.3 million tonnes) was supplied by our own mining operations. In 2010, the capacity of our washing plants in Russia accounted for 19.2% of the total domestic coking coal washing capacity in Russia by volume, according to Rosinformugol. Bluestone currently uses four washing plants: two washing plants at the Keystone Mining Complex (Keystone No. 1 and Keystone No. 2) which are owned by Bluestone; the washing plant at the Justice Energy Mining Complex (Red Fox Property) which is contracted by Bluestone pursuant to a long-term agreement, and the washing plant at the Dynamic Energy Mining Complex (Coal Mountain Property) which is also contracted by Bluestone pursuant to a long-term agreement. Keystone No. 2 was commissioned in December 2010 and Keystone No. 1 has been temporarily idle due to temporary excess of washing capacity as compared to mining capacity at the Keystone mines.

***Investments in coal companies***

We own 16.13% of Mezhdurechye OAO, a Russian coal producer whose production volume accounted for 4.8% of Russian coking coal output and 2.0% of Russian total coal output in 2010, according to the Central Dispatching Department.

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***Coke and coking products production***

We produce coke and coking products from coking coal concentrate at our subsidiaries Moscow Coke and Gas Plant, situated in the Moscow region, and Mechel-Coke, a subsidiary of Mechel Mining, located in the Urals.

The table below summarizes our production of coke and coking coal for the periods indicated.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Coke (6% moisture) | 3,884 | 3,233 | 3,326 |
| Coking products | 145 | 130 | 129 |

***Iron ore and concentrate production***

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

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

| License Area | License Holder | License Expiry Date | Status | Area (sq. km) | Year Production Commenced |
|---|---|---|---|---|---|
| Korshunovsk | Korshunov Mining Plant | June 2014 | In production | 4.3 | 1965 |
| Tatianinsk | Korshunov Mining Plant | June 2012 | In production | 1.3 | 1986 |
| Rudnogorsk | Korshunov Mining Plant | June 2014 | In production | 5.1 | 1984 |
| Krasnoyarovsk | Korshunov Mining Plant | July 2015 | Feasibility study[(1)] | 3.0 | n/a |

(1) Not included in our mineral reserves.

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|

| | Tonnes | Grade (% Fe) | Tonnes | Grade (% Fe) | Tonnes | Grade (% Fe) |
|---|---|---|---|---|---|---|
| | | | (In thousands of tonnes)[1] | | | |
| Korshunovsk ore production | 5,024 | 26.9% | 5,683 | 25.4% | 5,702 | 26.3% |
| Rudnogorsk ore production | 6,013 | 32.5% | 5,605 | 31.5% | 5,911 | 34.6% |
| Tatianinsk ore production | 67 | 27.8% | 1 | 28.7% | 110 | 29.2% |
| Total ore production | 11,104 | 29% | 11,289 | 28.5% | 11,724 | 30.5% |
| Iron ore concentrate production | 4,210 | 62.2% | 4,208 | 62.4% | 4,700 | 62.2% |

(1) Volumes are reported on a wet basis.

***Limestone production***

The Pugachev 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

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controlled by Russian Railways. The quarry was developed in 1952 to support Beloretsk Metallurgical Plant s steel-making facilities, which are currently closed. The Pugachev limestone quarry is owned by our Beloretsk Metallurgical Plant, which we acquired in 2002. The current subsoil license is valid until January 2014.

The quarry produces both high-grade flux limestone for use in steel-making and 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 2010, approximately 88.5% of the limestone produced at Pugachev was used internally as auxiliary, with 66.9% shipped to Chelyabinsk Metallurgical Plant, 19.2% shipped to Southern Urals Nickel Plant, 1.8% to Izhstal, 0.6% to Beloretsk Metallurgical Plant, approximately 1.5% sold to third parties, and approximately 10.0% 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.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Limestone production | 1,895 | 1,865 | 1,692 |

***Sales of mining products***

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

| Product | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| | (In thousands of tonnes[1]) | | | (% of total sales, including intra-group) | | |
| Coking coal concentrate[2] | 8,292.1 | 4,848.4 | 8,360.3 | 73.9% | 67.1% | 77.1% |
| Steam coal[2] | 4,249.8 | 8,224.0 | 7,629.4 | 78.6% | 93.3% | 91.8% |
| Anthracite and PCI coal | 1,853.3 | 391.0 | 913.9 | 86.5% | 56.1% | 77.1% |
| Iron ore concentrate | 3,283.1 | 3,786.7 | 2,713.1 | 83.9% | 93.2% | 58.1% |
| Coke | 1,150.5 | 845.2 | 1,051.9 | 31.0% | 27.1% | 32.5% |
| Coking Products | 171.6 | 116.6 | 123.5 | 100.0% | 100.0% | 100.0% |

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

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

The significant increase in coking coal concentrate sales in 2010 against 2009 was due to improved demand in both export and domestic markets. Our steam coal sales declined since a certain part of steam coal was processed and sold as PCI coal.

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

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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.

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| **Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** | **Amount** | **% of Revenues** |
| | **(In millions of U.S. dollars, except for percentages)** | | | | | |
| Coking coal concentrate | 1,457.5 | 47.8% | 538.3 | 31.4% | 1,860.9 | 50.8% |
| Domestic Sales | 21.8% | | 35.5% | | 49.7% | |
| Export | 78.2% | | 64.5% | | 50.3% | |
| Steam Coal | 360.6 | 11.8% | 614.8 | 35.9% | 746.5 | 20.4% |
| Domestic Sales | 26.4% | | 15.2% | | 12.1% | |
| Export | 73.6% | | 84.8% | | 87.9% | |
| Anthracite and PCI coal | 294.0 | 9.6% | 28.5 | 1.7% | 178.5 | 4.9% |
| Domestic Sales | 17.0% | | 19.1% | | 8.5% | |
| Export | 83.0% | | 80.9% | | 91.5% | |
| Coke | 359.8 | 11.8% | 138.7 | 8.1% | 377.5 | 10.3% |
| Domestic Sales | 72.8% | | 94.5% | | 77.6% | |
| Export | 27.2% | | 5.5% | | 22.4% | |
| Coking Products | 48.7 | 1.6% | 22.6 | 1.3% | 35.3 | 1.0% |
| Domestic Sales | 68.5% | | 63.2% | | 52.6% | |
| Export | 31.5% | | 36.8% | | 47.4% | |
| Iron ore concentrate | 338.8 | 11.1% | 233.0 | 13.6% | 339.4 | 9.2% |
| Domestic Sales | 40.0% | | 33.0% | | 23.5% | |
| Export | 60.0% | | 67.0% | | 76.5% | |
| Other[(1)] | 191.6 | 6.3% | 137.3 | 8.0% | 126.4 | 3.4% |
| Total | 3,050.9 | 100% | 1,713.2 | 100% | 3,664.5 | 100% |
| Domestic Sales | 34.4% | | 36.4% | | 42.1% | |
| Export | 65.6% | | 63.6% | | 57.9% | |

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

***Marketing and distribution***

In 2010, our mining products were marketed domestically in Russia primarily through Mechel Trading House and internationally through Mechel Trading and Mechel Carbon in Switzerland. 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)]** | **2010** | **2009** | **2008** |
|---|---|---|---|
| Russia | 32.3% | 34.3% | 42.0% |
| Other CIS | 8.1% | 1.2% | 8.8% |

| | | | |
|---|---|---|---|
| Europe | 18.2% | 17.1% | 15.1% |
| Asia | 34.8% | 37.1% | 29.2% |
| Middle East | 2.9% | 4.8% | 2.3% |
| Other regions | 3.7% | 5.5% | 2.6% |
| Total | 100% | 100% | 100% |

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(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.

The following table sets forth information about the five largest customers of our mining segment, which together accounted for 33.1% of our mining segment sales in 2010.

| Customer | % of Total Mining Segment Sales | Product | % of Total Products Sales |
|---|---|---|---|
| ArcelorMittal | 10.6% | Coking coal concentrate | 10.3% |
| | | Steam coal | 47.8% |
| Severstal | 8.4% | Coking coal concentrate | 8.8% |
| | | Coke | 35.7% |
| EvrazHolding | 7.6% | Iron ore concentrate | 38.5% |
| | | Coking coal concentrate | 6.9% |
| Ducalion Trading Ltd. | 3.6% | Coking coal concentrate | 7.1% |
| | | Steam coal | 1.8% |
| Sinosteel | 2.9% | Coking coal concentrate | 24.8% |

*Sales by Russian subsidiaries*

***Domestic sales***

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

We 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 Severstal, accounting for 8.8% of our total coking coal concentrate sales and 4.2% of our total mining segment sales in 2010.

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 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 rescission of its 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 have long-term coking coal supply contracts with our major domestic customers Severstal, TC EvrazHolding and Ural Steel with quarterly adjustment of prices.

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

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customers on a long-term basis. Some of our steam coal is consumed within the group; for example, sales of steam coal and middlings (lower-quality coal) from our Southern Kuzbass Coal Company to our Southern Kuzbass Power Plant were $21.8 million in 2010. In total, 1.2 million tonnes of steam coal was consumed within the group. SUE Housing Sakha Republic (Yakutia) is our largest domestic customer of steam coal, accounting for 20.9% of our total steam coal sales and 0.7% of our total mining segment sales in 2010.

Iron ore concentrate is shipped via railway directly from our Korshunov Mining Plant to customers. Our largest domestic customer, EvrazHolding, accounted for 38.5% of our total iron ore concentrate sales and 4.3% of our total mining segment sales in 2010. We set our prices on a monthly or quarterly basis as agreed with the customers.

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 640 open cars and has 3,380 open cars under equipment finance leases. Mecheltrans transported domestically approximately 43.0 million tonnes of our cargo in 2010, approximately 64% of which was comprised of coal and iron ore.

***Export sales***

We export coking coal, low ash washed bituminous coal of various grades, various types of steam coal, anthracite, coke and iron ore concentrate.

In 2010, the largest foreign customer of our mining segment was ArcelorMittal, accounting for 10.0% of our total mining segment sales. ArcelorMittal purchases consisted of coking coal concentrate and steam coal.

We were Russia s largest exporter of coking coal concentrate in 2010, according to RasMin. Our exports of coking coal concentrate primarily go to China, Japan, Ukraine and South Korea. In 2010, ArcelorMittal, Ducalion Trading Ltd., Sinosteel Raw Materials Company Ltd., JFE Steel Company and Shanxi Coking Coal Group were our largest foreign customers of coking coal concentrate, accounting for 29.8% of our total coking coal concentrate sales and 14.2% of our total mining segment sales. Shipments are made by rail to sea ports and further by sea, except for shipments to Ducalion Trading Ltd. that are made only by rail.

Our exports of steam coal, anthracite and PCI coal are primarily to Luxembourg, France and Japan, which together accounted for 31.2% of our total steam coal sales and 6.7% of our total mining segment sales in 2010. In 2010, our largest foreign customers of steam coal (including anthracite and PCI coal) were ArcelorMittal in Europe, Sumitomo Corporation in Japan and Toplofikatsia Rousse in Bulgaria. Steam coal is shipped to customers from our warehouses by railway and further by ship from Russian ports.

Our Port Posiet processed 3.6 million tonnes of coal in 2010. From Port Posiet we ship primarily our steam coal and coking coal concentrate to Japan, Korea and China. The port s current capacity is approximately 3.5 million tonnes of annual cargo-handling throughput and 230,000 tonnes of warehousing capacity depending on coal type. The port s proximity to roads and rail links to key product destinations and transshipment points in China and Russia make it a cost-effective link in the logistical chain for bringing our Yakutugol coal production to market.

In 2010, we used annual contracts for export sales of coking and steam coal. Coal not shipped under annual contracts was sold on the spot market.

We also sold iron ore concentrate to customers in China during 2010, which accounted for 60.2% of our total iron ore concentrate sales and 6.7% of our total mining segment sales in 2010. We ship iron ore concentrate to China by rail and by sea.

*Sales by U.S. subsidiaries*

Bluestone mining business sold 2.6 million tonnes of coking and steam coal in 2010, 74% 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. All 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

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go directly to coking plants in North America or to port facilities for transloading into ocean going ships. In 2010, all Bluestone exports went through the port of Norfolk, Virginia.

***Market share and competition***

*Coal*

According to AME, we were among the 10 largest metallurgical coal producers in the world in 2010. The following table lists the major world metallurgical coal (i.e. coking coal and PCI coal) producers in 2010.

| Company | Metallurgical Coal Production (Millions of Tonnes) |
|---|---|
| BHP Mitsubishi Alliance | 59 |
| Teck Resources Limited | 23 |
| Alpha Natural Resources[(1)] | 17 |
| Anglo American PLC | 15 |
| Xstrata PLC | 14 |
| Mechel | 13 |
| Rio Tinto Group | 12 |
| Peabody Energy Corp. | 10 |
| Walter Energy[(2)] | 9 |
| Patriot Coal Corporation | 7 |

Source: AME; company reports; trade statistics

(1) Pro-forma acquisition of Massey Energy by Alpha Natural Resources. This assumes the consolidation of Massey Energy and Alpha Natural Resources estimated export figures.

(2) Pro-forma acquisition of Western Coal by Walter Energy. This assumes the consolidation of Western Coal and Walter Energy estimated export figures.

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According to AME, we were among the 10 largest metallurgical coal exporters in the world in 2010. The following table lists the major world metallurgical coal exporters and their shares of the total metallurgical coal international trade in 2010.

| Company | Metallurgical Coal Export (Millions of Tonnes) | % of Total Internationally Traded Metallurgical Coal |
|---|---|---|
| BHP Mitsubishi Alliance | 58 | 22% |
| Teck Resources Limited | 22 | 8% |
| Anglo American PLC | 15 | 6% |
| Xstrata PLC | 14 | 5% |
| Alpha Natural Resources(1) | 13 | 5% |
| Rio Tinto Group | 12 | 4% |
| Peabody Energy Corp. | 9 | 2% |
| Mechel | 8 | 3% |
| Walter Energy(2) | 6 | 3% |
| Patriot Coal | 5 | 2% |
| Other | 107 | 40% |
| Total Metallurgical coal exports | 269 | 100% |

Source: AME; company reports; trade statistics

(1) Pro-forma acquisition of Massey Energy by Alpha Natural Resources. This assumes the consolidation of Massey Energy and Alpha Natural Resources estimated export figures.

(2) Pro-forma acquisition of Western Coal by Walter Energy. This assumes the consolidation of Western Coal and Walter Energy estimated export figures.

According to Rosinformugol, in 2010 the Russian coal mining industry was represented by 201 companies, which operated 85 underground mines and 116 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 78.9% of the overall coal production volume in 2010.

According to data from the Central Dispatching Department, in 2010, we were the largest coking coal producer in Russia, with a 22.2% share of total production by volume, and we had a 7.2% market share with respect to overall Russian coal production by volume. We also controlled 19.2% of the coking coal washing facilities in Russia by capacity at the end of 2010, according to Rosinformugol. The following table lists the

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main Russian coking coal producers in 2010, 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 | 7,072 | 10.9% |
| | Yakutugol Holding Company OAO | 7,409 | 11.4% |
| | Mechel Total | 14,481 | 22.2% |
| Sibuglemet Holding | Polosukhinskaya Mine OAO | 2,903 | 4.5% |
| | Mezhdurechye OAO[1] | 3,113 | 4.8% |
| | Antonovskaya Mine ZAO | 776 | 1.2% |
| | Bolshevik Mine OAO | 1,303 | 2.0% |
| | Sibuglemet Total | 8,095 | 12.4% |
| Evraz Group S.A. | Yuzhkuzbassugol Coal Company ZAO | 7,509 | 11.5% |
| Severstal OAO | Vorkutaugol OAO | 7,197 | 11.1% |
| Raspadskaya OAO | Raspadskaya ZAO | 7,160 | 11.0% |
| Kuzbassrazrezugol Coal Company OAO | Kuzbassrazrezugol Coal Company OAO | 4,686 | 7.2% |
| Belon Group | PO Sibir-Ugol OAO | 4,133 | 6.3% |
| SUEK OAO | SUEK OAO (Kemerovo region) | 2,743 | 4.2% |
| Other | | 9,108 | 14.0% |
| Total | | 65,111 | 100% |

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 2010, we were the fourth largest steam coal producer in Russia in terms of volume, with a 3.4% share of total production. The following table lists the main Russian steam coal producers in 2010, 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) | 24,312.8 | 9.4% |
| | SUEK OAO (Krasnoyarsk territory) | 29,546.3 | 11.5% |
| | Vostsibugol OOO (Irkutskregion) | 12,625.7 | 4.9% |
| | SUEK OAO (Republic of Khakasia) | 9,907.7 | 3.8% |
| | SUEK OAO (Tugnuiskii open pit) | 6,856.2 | 2.7% |
| | SUEK OAO (Zabaikalsk territory) | 5,646.0 | 2.2% |
| | Primorskugol OAO | 5,171.2 | 2.0% |
| | Urgalugol OAO | 2,613.9 | 1.0% |
| | SUEK Total | 96,679.8 | 37.5% |
| Kuzbassrazrezugol Coal Company OAO | Kuzbassrazrezugol Coal Company OAO | 45,021.6 | 17.5% |
| SDS-Ugol Holding Company OAO | Chernigovets ZAO | 5,306.2 | 2.1% |
| | Salek ZAO | 2,783.9 | 1.1% |
| | Yuzhnaya Shaft Mine OAO | 2,368.0 | 0.9% |
| | Kiselevsky Open Pit Mine OAO | 2,048.2 | 0.8% |
| | Kiselevskaya Shaft Mine OOO | 373.9 | 0.1% |
| | UK Prokopyevskugol OOO | 118.3 | 0.0% |
| | Itatugol OOO | 82.4 | 0.0% |
| | SDS-Ugol Total | 13,080.9 | 5.1% |
| Mechel OAO | Southern Kuzbass Coal Company OAO | 6,912.7 | 2.7% |
| | Yakutugol Holding Company OAO | 1,776.5 | 0.7% |
| | Mechel Total | 8,689.2 | 3.4% |
| EvrazGroup | Yuzhkuzbassugol Coal Company ZAO | 3,830.3 | 1.5% |
| Kuzbasskaya TK OAO | Kuzbasskaya TK OAO | 6,718.5 | 2.6% |
| Primorskugol OAO | Primorskugol OAO | 5,171.2 | 2.0% |
| Zarechnaya Shaft Mine OAO | Zarechnaya Shaft Mine OAO | 5,002.0 | 1.9% |
| LUTEK OAO | LUTEK OAO | 4,300.9 | 1.7% |
| Other | | 69,395.1 | 26.9% |
| Total | | 257,889.5 | 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 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 2010 was 1,086 million tonnes. Bluestone s share of total production was 0.29%.

*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-Courier, the market is dominated by relatively few producers, with the top three mining groups being Metalloinvest, the Evraz Group and

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Severstal-Resurs, representing over 69.0% of total production of iron ore concentrate. We were sixth in production volume in 2010 with 4.2 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)***

Our mineral reserves are based on exploration drilling and geological data, and are that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Each year we update our reserve calculations based on actual production and other factors, including economic viability and any new exploration data. Our reserves, consisting of proven and probable reserves, meet the requirements set by the SEC in its Industry Guide 7. Information on our mineral reserves (coal, iron ore, limestone, nickel and chrome) has been prepared by our internal mining engineers as of December 31, 2010. 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. We retained Marston & Marston, Inc., to conduct an independent review of our Russian mineral resources and reserves (coal, iron ore and limestone), and Weir International, Inc., to conduct an independent review of our U.S. mineral resources and reserves (coal). Each of Marston & Marston and Weir International is a U.S. based mining engineering firm qualified to conduct reviews and prepare technical reports on mineral resources and reserves.

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. For our Russian properties our 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. We report information on our mineralized material on an annual basis to the Russian State Committee on Reserves ( **GKZ** ) according to the approved Russian classifications of A, B and C1. In general, provided that Industry Guide 7 s economic criteria are met, A+B is equivalent to proven and C1 is equivalent to probable. However, when preparing year-by-year production schedules, due to our practice of preparing our Russian mineralization reports manually and the lack of computerized data and modeling, we do not break out future production by these categories when scheduling and we are not required to do so by the GKZ. These categories are defined for the mine plan as a whole. As these annual production schedules are the basis for estimating our reserves under Industry Guide 7, we are not able to segregate our Industry Guide 7 reserves into proven and probable categories. Although we are in the process of digitizing our data and implementing the use of computerized models and hope to be able to prepare production schedules by category in the future (and hence segregate our Industry Guide 7 reserves by proven and probable categories), currently it would not be commercially feasible for us to do so.

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. Based on the Russian Subsoil Law, as amended, and as currently applied in practice, as evidenced by publicly available information and by 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. 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 License extensions. We have already received extension of two of our licenses and we intend to extend the licenses for all deposits expected to remain productive subsequent to their license expiry dates. However, license extension is not guaranteed and is to a large extent subject to the discretion of regulatory authorities. Therefore, we present our 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. See Item 3. Key Information Risk Factors Risks Relating to Our Business and Industry Our business could be

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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 2011 through 2015. Currently, eleven of our 50 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 U.S. Environmental Protection Agency (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.

*Coal*

As of December 31, 2010, we had coal reserves (proven and probable) totaling 1,316.0 million tonnes, of which approximately 63.0% was coking coal. The table below summarizes coal reserves by mine.

| **Coal Reserves[1][2]** | **Within Subsoil License Term** | **Outside Subsoil License Term** | **Total Coal Reserves** | **Heating Value[3][4]** | **% Sulfur[4]** |
|---|---|---|---|---|---|
| | | | **(In millions of tonnes)[5][6][7]** | | |
| Krasnogorsk Open Pit | 100.7 | 106.0 | 206.7 | 5,800 | 0.40 |
| Coking Coal | | | | | |
| Steam Coal | 100.7 | 106.0 | 206.7 | | |
| Tomusinsk Open Pit | 4.0 | 13.2 | 17.2 | 8,350 | 0.30 |
| Coking Coal | 3.0 | 8.2 | 11.2 | | |
| Steam Coal | 1.0 | 5.0 | 6.0 | | |
| Olzherassk Open Pit | 25.7 | 13.6 | 39.3 | 8,170 | 0.25 |
| Coking Coal | 8.3 | 5.5 | 13.8 | | |
| Steam Coal | 17.4 | 8.1 | 25.5 | | |
| New-Olzherassk Underground | 21.6 | 19.8 | 41.4 | 7,900 | 0.30 |
| Coking Coal | | | | | |
| Steam Coal | 21.6 | 19.8 | 41.4 | | |
| Sibirginsk Open Pit | 10.9 | 89.9 | 100.8 | 8,483 | 0.30 |
| Coking Coal | 7.4 | 42.2 | 49.6 | | |
| Steam Coal | 3.5 | 47.7 | 51.2 | | |
| Sibirginsk Underground | 32.0 | 14.5 | 46.5 | 8,441 | 0.29 |
| Coking Coal | 32.0 | 14.5 | 46.5 | | |
| Steam Coal | | | | | |
| Lenin Underground | 5.9 | 24.0 | 29.9 | 8,468 | 0.33 |
| Coking Coal | 5.9 | 24.0 | 29.9 | | |
| Steam Coal | | | | | |
| Nerungrinsk Open Pit | 38.9 | 108.8 | 147.7 | 8,600 | 0.30 |
| Coking Coal | 35.3 | 104.3 | 139.6 | | |

| | | | | | |
|---|---|---|---|---|---|
| Steam Coal | 3.6 | 4.5 | 8.1 | | |
| Kangalassk Open Pit | 0.6 | 11.6 | 12.2 | 6,700 | 0.40 |
| Coking Coal | | | | | |
| Steam Coal | 0.6 | 11.6 | 12.2 | | |
| Elga Open Pit | 101.3 | 414.2 | 515.5 | 7,500-8,600 | 0.30 |
| Coking Coal | 64.1 | 333.6 | 397.7 | | |
| Steam Coal | 37.2 | 80.6 | 117.8 | | |

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| Coal Reserves[1][2] | Within Subsoil License Term | Outside Subsoil License Term | Total Coal Reserves | Heating Value[3][4] | % Sulfur[4] |
|---|---|---|---|---|---|
| | | | (In millions of tonnes)[5][6][7] | | |
| Keystone Mining Complex[8] | 130.0 | | 130.0 | | |
| Coking Coal | 114.4 | | 114.4 | 8,704 | 0.86 |
| Steam Coal | 15.6 | | 15.6 | 8,042 | 0.82 |
| Dynamic Energy Mining Complex[9] | 19.7 | | 19.7 | | |
| Coking Coal | 18.4 | | 18.4 | 8,320 | 0.92 |
| Steam Coal | 1.3 | | 1.3 | 8,575 | 1.02 |
| Justice Energy Mining Complex[10] | 9.1 | | 9.1 | | |
| Coking Coal | 8.5 | | 8.5 | 8,661 | 1.10 |
| Steam Coal | 0.6 | | 0.6 | 8,541 | 1.20 |
| Total | 500.4 | 815.6 | 1,316.0 | | |
| Coking Coal | 297.3 | 532.3 | 829.6 | | |
| Steam Coal | 203.1 | 283.3 | 486.4 | | |
| % of Total | | | | | |
| Coking Coal | 59.4% | 65.3% | 63.0% | | |
| Steam Coal | 40.6% | 34.7% | 37.0% | | |

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) We own 96.6% of Southern Kuzbass Coal Company mines, 74.5% of Tomusinsk Open Pit Mine, 100% of Yakutugol mine, 100% of Elga mine and 100% of Bluestone mines. Reserves are presented for the mines on an assumed 100% ownership basis.

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

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

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

(6) The average coal recovery factors for raw coal sent to Siberian Central Processing Plant, Kuzbass Central Processing Plant, Tomusinsk Processing Mills, Krasnogorsk Processing Plant and Nerungrinsk Processing Plant are projected to be 78%, 73%, 82%, 55% and 64%, respectively. The average coal recovery factor for raw coal mined at Elga mine is projected to be 70%.

(7) In estimating our reserves located in Russia we use coal prices which are in line with 3-year average prices and currency conversions are carried out at average official exchange rates of the Central Bank of Russia. Average prices used were:

Southern Kuzbass Coal Company: run-of-mine coking coal $65.02 per tonne; run-of-mine steam coal $30.44 per tonne.

Nerungrinsk Open Pit: run-of-mine coking coal $85.74 per tonne.

Elga: run-of-mine coking coal $81.91 per tonne; run-of-mine steam coal $39.32 per tonne.

In estimating our Bluestone reserves we use prices in the range of $135-140 for coking coal and $30-35 for steam coal which are in line with 3-year average prices.

(8) Coal reserves of 130.0 million tonnes in total consist of 69.0 million tonnes of proven and 61.0 million tonnes of probable reserves.

(9) Coal reserves of 19.7 million tonnes in total consist of 10.4 million tonnes of proven and 9.3 million tonnes of probable reserves.

(10) Coal reserves of 9.1 million tonnes in total consist of 5.9 million tonnes of proven and 3.2 million tonnes of probable reserves.

Our Dzhebariki-Khaya Underground Mine does not contain mineral reserves. Although it is an operating mine and the geological sampling and density requirements have been met, it fails to meet the economic

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criteria. Our Southern Kuzbass Coal Company subsidiary also has a number of coal mining licenses with which no mineral reserves are associated.

Elga, a coalfield for which our subsidiary Yakutugol holds a subsoil license, is now an undeveloped property in a remote area of Siberia. Elga contains large quantities of export-quality coking and steam coal. Since 1998 there have been several studies on Elga, including geology and resources, mine planning, railway construction and feasibility studies. We plan to mine Elga using open pit mining methods. In 2009, 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 Elga open pit coal mine. In 2009, the design institute NTC Geotechnology OOO developed a plan of initial mine block development for the three-year period from 2010 until 2012 that allowed us to commence overburden mining at the initial mine block of Elga open pit mine in November 2010. The plan was approved by the Central Commission for Development of the Federal Agency for Subsoil Use.

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

- According to the terms of the subsoil license for the Elga coal deposit, we must construct a rail branch line from the Baikal-Amur Mainline to the coal deposit, which would be approximately 315 kilometers in length. The construction of the rail line branch had already started some time before we acquired the Elga coal deposit. Following the acquisition in October 2007, 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 view of our commitments under the subsoil license, we have proactively applied for and obtained amendments to certain terms of the subsoil license, and 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 branch line was postponed from September 30, 2010 to December 31, 2011, and (2) completion of the construction of the first phase of Elga complex was postponed from October 30, 2010 to December 31, 2013. If the current deadlines are not met, our subsoil license for Elga may be suspended or terminated or we may be required to extend the license under less favorable terms. We believe that given the substantial progress we have made with development of this project and the considerable amount of money we have invested in the project, combined with the importance of this project to the region, we will be able to obtain further extensions of the construction deadlines should they be necessary, but we cannot guarantee that such extensions will be granted.

- The viability of the Elga project is dependent upon the construction of the rail branch line referred to above. Construction is currently in process.

- A detailed feasibility study was completed on the Elga project in 2005. Currently, a new engineering study is being prepared for the first construction phase of Elga complex which will, among other, specify project capital and operating costs which may change due to further evaluation of the project. In April 2011, we expect to produce the plan for the first construction phase of Elga complex with annual production capacity of 9.0 million tonnes of coal. Increases in capital and operating costs have the potential to make the Elga project uneconomical because of the project s sensitivity to these costs.

- The Elga project is very sensitive to market prices for coal because of the high initial capital costs.

- Insufficient capacity of ports in the Eastern part of Russia where Elga deposit is located may limit the distribution of coal mined at Elga deposit.

*Iron ore*

As of December 31, 2010, we had iron ore reserves (proven and probable) totaling 126.2 million tonnes at an average iron grade of 27.9%. The table below summarizes iron ore reserves by mine.

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| Iron Ore Reserves[1][2][3][4] | Within Subsoil License Term | Outside Subsoil License Term | Total | Grade (% Fe)[5] |
|---|---|---|---|---|
| | (In millions of tonnes) | | | |
| Korshunovsk | 21.0 | 19.2 | 40.2 | 24.4 |
| Rudnogorsk | 20.5 | 62.0 | 82.5 | 29.6 |
| Tatianinsk | 0.8 | 2.8 | 3.5 | 26.1 |
| Total | 42.3 | 84.0 | 126.2 | 27.9 |

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) In estimating our reserves we use an average price of $82 per tonne of iron ore concentrate and currency conversions are carried out at average official exchange rates of the Central Bank of Russia.

(3) Volumes are reported on a wet basis.

(4) We own 85.6% of Korshunov Mining Plant mines. Reserves are presented for the mines on an assumed 100% ownership basis.

(5) Metallurgical recovery is projected to be 79%.

*Limestone*

As of December 31, 2010, we had limestone reserves (proven and probable) totaling 20.5 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) | | | |
| Pugachev | 6.0 | 14.5 | 20.5 | 55.2 |

(1) Reserve estimates use the tonnages that are expected to be mined, taking into account dilution and losses.

(2) We own 91.4% of Beloretsk Metallurgical Plant which owns 100% of Pugachev Open Pit, the holder of the subsoil license for the Pugachev 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 $5.71 per tonne of commodity limestone which is in line with 3-year average price 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 and Romania. Our total steel output was 5.9 million tonnes in 2008, 5.5 million tonnes in 2009 and 6.1 million tonnes in 2010.

***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. Cold pig iron is brittle. 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. We sell small volumes of pig iron from our Chelyabinsk Metallurgical Plant to third parties.

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*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 and on a continuous semifinishing mill. We offer our customers billets and blooms produced by Mechel Targoviste, Izhstal, Chelyabinsk Metallurgical 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, and Mechel Campia Turzii, Mechel Targoviste and Ductil Steel in Romania.

We offer our customers a wide selection of long steel products produced from various kinds of steel, including rebar, calibrated long steel products, steel angles, round products, surface-conditioned 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 custom parts stamped from flat products. Forgings are specialty products made through the application of localized compressive forces to metal. Forged metal is stronger than cast or machined metal. Our forgings and stampings are offered on a made-to-order basis according to minimum batches depending on the products sizes. Our product offerings include rollers and axles used in vehicle manufacturing; bearings, gears and wheels; bars; and others. Our stampings and forgings are produced at Urals Stampings Plant, including its branches. Izhstal and Mechel Targoviste also produce stampings and forgings.

*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; wire for bearing manufacturing; 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.

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Pig Iron | 4,149 | 3,805 | 3,500 |
| Semi-Finished Steel Products, including: | 2,212 | 1,913 | 1,687 |
| Carbon and Low-Alloyed Semi-Finished Products | 1,783 | 1,806 | 1,710 |
| Long Steel Products, including: | 3,515 | 3,099 | 3,348 |
| Stainless Long Products | 12 | 22 | 15 |
| Alloyed Long Products | 383 | 63 | 36 |
| Rebar | 1,901 | 1,536 | 1,535 |
| Wire Rod | 713 | 631 | 580 |
| Low-Alloyed Engineering Steel | 341 | 430 | 606 |
| Flat Steel Products, including: | 443 | 345 | 357 |
| Stainless Flat Products | 46 | 31 | 37 |
| Carbon and Low-Alloyed Flat Products | 397 | 313 | 320 |
| Forgings, including: | 76 | 49 | 72 |
| Stainless Forgings | 3 | 2 | 1 |
| Alloyed Forgings | 45 | 30 | 29 |
| Carbon and Low-Alloyed Forgings | 28 | 16 | 41 |
| Stampings | 97 | 61 | 86 |
| Wire Products, including: | 869 | 627 | 719 |
| Wire | 672 | 487 | 556 |
| Ropes | 58 | 41 | 52 |

***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 71% 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 28% 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 raw 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

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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 and Izhstal are ISO 9001:2008 certified. Ductil Steel and wire-drawing workshops No. 1 (TS1) and No. 3 (TOT3) of Mechel Campia Turzii are ISO 14001 certified.

*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.

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 July 2010, 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; three EAF workshops equipped with electric arc ovens, including two large ovens of 100 and 125 tonnes, respectively; small-capacity direct- and alternating-current furnaces: four continuous billet-casters; a blooming mill with continuous rolling mill for 200-320 millimeter and 80-180 millimeter billets; six long product mills for 6.5-190 millimeter diameter round bar and 75-156 millimeter square bar, 6.5-10 millimeter 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.

| | **Capacity** | **Planned** |
|---|---|---|

| Production Areas | Capacity in 2010 | Utilization Rate in 2010 | Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Sintering | 4,760 | 99.9% | 360 |
| Pig Iron | 4,300 | 96.5% | |
| Steel-making | 5,177 | 99.6% | |
| Rolling | 4,751 | 94.8% | |

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Chelyabinsk Metallurgical Plant produced 5.2 million tonnes of raw steel and 4.5 million tonnes of rolled products in 2010.

In the second half of 2007, we began an upgrade of Chelyabinsk Metallurgical Plant s arc-furnace melting shop No. 6 to increase continuous slab production capacity to 1.2 million tonnes per year. 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, contractual equipment tests are being completed.

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 $664.9 million in capital investments. The launch of the new rolling mill is scheduled for the end of 2011. 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.

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 400,000 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 110.0 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 lines include one EAF of 30 tonnes; aggregate ladle furnace and ladle vacuum oxygen decarburizer; 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. It also has a drawing and seizing workshops, equipped with, among other things, various drawing machines, a pickling line, bell furnaces and patenting lines. In May 2009, the electrical open hearth

workshop, equipped with three open hearth furnaces of 130-135 tonnes each and three electric furnaces of 30 tonnes each, was stopped because its operations were not

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profitable. The following table sets forth the capacity and the capacity utilization rate for each of Izhstal s principal production areas.

| Production Areas | Capacity in 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Steel-making | 85 | 92.1% | 266 |
| Rolling | 390 | 86.5% | 30 |
| Wire products and seized rolling | 57.1 | 81.9% | |
| Forging and stamping | 21.6 | 79.1% | |

Izhstal produced approximately 78.3 thousand tonnes of raw steel, 337.3 thousand tonnes of rolled products, 46.7 thousand tonnes of wire products and seized rolling and 17.1 thousand tonnes of stampings and forgings in 2010.

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 steelmaking complex was comissioned in September 2010 and currently equipment tests are being carried out. 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. 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.

*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 wire rod of 5.5-13.5 millimeters in diameter; 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; and a cold rolling line. In 2010, we invested $3.5 million to improve product quality, increase output, reduce production costs and increase profitability. Due to this investment, in December 2010 we started-up a MIG/MAG welding wire line with a total cost of $2.9 million. The wire is actively used in machinery and construction industries for welding of building structures and machine parts. 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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|

| | (In thousands of tonnes, except for percentages) | | |
|---|---|---|---|
| Rolling | 630 | 99.5% | |
| Wire products | 490 | 98.6% | 47 |

Beloretsk Metallurgical Plant produced a total of 714.8 thousand tonnes of steel products made from semi-finished products in 2010, including Chelyabinsk Metallurgical Plant s semi-finished products (wire rod) which were used in wire products production in the amount of 98.3 thousand tonnes. Wire products production amounted to 483.0 thousand tonnes. Rolled products production amounted to a total of 626.8 thousand tonnes, out of which 395.0 thousand tonnes were further processed into wire products and 231.8 thousand tonnes constituted the output volume of wire rod for third party customers.

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*Vyartsilya Metal Products Plant*

Vyartsilya Metal Products Plant is a wire products plant in the 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 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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Wire products | 120 | 98.7% | 10 |

Vyartsilya Metal Products Plant produced 118.4 thousand tonnes of wire products in 2010.

*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.

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

| Production Areas | Capacity in 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Stampings and forgings | 100 | 79.7% | |

Urals Stampings Plant produced 79.7 thousand tonnes of specialty steel stampings in 2010.

*Mechel Targoviste*

Mechel Targoviste is a major Romanian EAF steel mill that produces specialty and carbon long products, forgings 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, automotive, tool, ball-bearing, tube, 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 with a 75-tonne capacity; steel vacuum processing and two stove-basket aggregates; a continuous billets caster; a blooming mill for 80-400 millimeter square and 90-145 millimeter round billets; and two continuous long products rolling mills for 20-80 millimeter round bars, 24-57 millimeter hexagonal bars, 60-70 millimeter square bars, bands of 6-12 millimeter thickness and 60-120 millimeter width, 12-26 millimeter bundle rod and reinforcing steel; and a press-forging workshop. The following table sets forth the

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

| Production Areas | Capacity in 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Steel-making | 550 | 81.1% | |
| Forging and stamping | 37 | 4.5% | |
| Rolling | 780 | 56.0% | |
| Seized rolling | 18 | 10.8% | |

Mechel Targoviste produced 445.9 thousand tonnes of raw steel, 436.5 thousand tonnes of rolled products, 1.9 thousand tonnes of seized rolling and 1.7 thousand tonnes of forgings in 2010.

In 2010, Mechel Targoviste experienced low rolling capacity utilization rates due to efforts to reduce production costs and increase quality, as well as due to the inefficiency of running its blooming process, involving high-capacity machinery with high power requirements, at low capacity utilization levels. With the aim to increase efficiency, in 2010 we introduced a new technology of steel casting at Mechel Targoviste. The low forging and stamping capacity utilization rates were due to a decrease in demand 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.

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 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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Rolling[(1)] | 300 | 68.4% | |
| Wire products | 100 | 61.7% | |

(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 140.5 thousand tonnes of rolled products and 61.7 thousand tonnes of wire products in 2010.

*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.

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Mechel Nemunas s principal production facilities include drawing machines and nail 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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Wire products | 70 | 86.7% | |

Mechel Nemunas produced 60.7 thousand tonnes of wire products in 2010.

*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 billets produced by some of these subsidiaries. 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.

Ductil Steel s principal production facilities include one EAF with capacity of 110 tonnes, ladle furnace with capacity of 105 tonnes, a continuous billets caster, 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 2010, second EAF with capacity of 110 tonnes equipped with COSS system for scrap heating by waste gases was erected. 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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Steel-making | 388 | 93.1% | 162 |

| | | | |
|---|---|---|---|
| Rolling | 300 | 59.3% | 140 |
| Wire products | 105 | 82.4% | |

Ductil Steel produced 361.0 thousand tonnes of raw steel, 178.0 thousand tonnes of rolled products and 86.5 thousand tonnes of wire products in 2010.

*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 machinery and construction), 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

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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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Rolling | 380 | 41.6% | |

Laminorul Plant produced 158.0 thousand tonnes of rolled products in 2010.

***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.

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| Revenues | Amount | % of Revenues | Amount | % of Revenues | Amount | % of Revenues |
| | (In millions of U.S. dollars, except for percentages) | | | | | |
| Pig Iron | 63.5 | 1.1% | 45.4 | 1.4% | 19.1 | 0.4% |
| Semi-Finished Products, including: | 1,235.4 | 22.1% | 496.8 | 15.8% | 475.7 | 9.2% |
| Carbon and Low-Alloyed Semi-Finished Products[1] | 1,091.9 | 19.5% | 481.3 | 15.3% | 425.1 | 8.2% |
| Long Steel Products, including: | 2,194.3 | 39.3% | 1,463.6 | 46.6% | 2,682.4 | 51.9% |
| Stainless Long Products | 52.5 | 0.9% | 43.4 | 1.4% | 53.0 | 1.0% |
| Alloyed Long Products | 226.5 | 4.1% | 68.6 | 2.2% | 158.0 | 3.1% |
| Rebar | 1,150.3 | 20.6% | 877.5 | 27.9% | 1,632.8 | 31.6% |
| Wire Rod | 287.5 | 5.1% | 203.5 | 6.5% | 240.3 | 4.7% |
| Carbon and Low-Alloyed Engineering Steel | 477.5 | 8.5% | 270.5 | 8.6% | 598.3 | 11.6% |
| Flat Steel Products, including: | 463.1 | 8.3% | 262 | 8.3% | 475.6 | 9.2% |
| Stainless Flat Products | 203.9 | 3.6% | 103.2 | 3.3% | 184.6 | 3.6% |
| Carbon and Low-Alloyed Flat Products | 253.6 | 4.5% | 158.8 | 5.1% | 291.0 | 5.6% |
| Forgings, including: | 121.0 | 2.2% | 76.4 | 2.4% | 180.9 | 3.5% |
| Stainless Forgings | 22.8 | 0.4% | 12.2 | 0.4% | 24.5 | 0.5% |
| Alloyed Forgings | 6.5 | 0.1% | 2.7 | 0.1% | 20.8 | 0.4% |
| Carbon and Low-Alloyed Forgings | 67.4 | 1.2% | 58.8 | 1.9% | 107.2 | 2.1% |
| Forged Alloys | 24.2 | 0.4% | 2.1 | 0.1% | 28.3 | 0.5% |
| Stampings | 188.9 | 3.4% | 136.8 | 4.4% | 236.1 | 4.6% |
| Wire Products, including: | 722.4 | 12.9% | 473.2 | 15.1% | 891.5 | 17.3% |
| Wire | 491.6 | 8.8% | 319.5 | 10.2% | 640.2 | 12.4% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ropes | 75.2 | 1.3% | 45.8 | 1.5% | 84.4 | 1.6% |
| Other | 597.6 | 10.7% | 189.1 | 6.0% | 202.8 | 3.9% |
| Total | 5,586.2 | 100% | 3,143.3 | 100% | 5,164.1 | 100% |

(1) Excludes revenues from slab sales.

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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)] | 2010 | 2009 | 2008 |
|---|---|---|---|
| Russia | 55.2% | 49.7% | 58.5% |
| Other CIS | 6.7% | 8.0% | 5.8% |
| Europe | 17.7% | 18.9% | 24.8% |
| Asia | 2.8% | 6.0% | 2.3% |
| Middle East | 14.7% | 16.0% | 5.8% |
| United States | 0.3% | 0.3% | 0.7% |
| Other | 2.6% | 1.1% | 2.1% |
| 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.

In 2010, the five largest customers of our steel segment products were SteelLoyd General Trading LLC (semi-finished steel and long products), Amesco FZE (semi-finished products and long products), Stemcor UK Limited (carbon and low-alloyed semi-finished products, rebar, long products and other steel products), Al-Tuwarqi Holding Company (carbon and low-alloyed semi-finished products) and Nova P.M. Steel Company Limited (carbon and low-alloyed semi-finished products), which together accounted for 8.0% of our steel segment sales. In 2010, we increased our business with a number of Russian and foreign metallurgical plants and trading companies, which are considered related parties in our consolidated financial statement (the **related metallurgical plants** ). In 2010, we also started selling pig iron and semi-finished products to 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. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. This led to increase of sales of our semi-finished products, flat products, long products, forgings, pig iron and other products, as well as of semi-finished products we purchased on the market. Revenues from sales to related metallurgical plants and Metallurg-Trust amounted to 9.2% of our steel segment sales in 2010.

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 7.3% of our total sales in 2010 were sold in the Sanctioned Countries, mostly by independent distributors to other distributors or end-users. Such sales accounted for 7.1% of our total sales in 2009.

In addition, we have a very limited number of direct sales to customers in the Sanctioned Countries, amounting to approximately 0.9% of our total sales in 2010.

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** | **2010** | **2009** | **2008** |
|---|---|---|---|
| | **(In millions of U.S. dollars, except for percentages)** | | |
| Pig Iron | 63.5 | 45.4 | 19.1 |
| Domestic Sales | 62.7% | 39.8% | 100.0% |
| Export | 37.3% | 60.2% | 0.0% |
| Semi-Finished Steel Products | 1,235.4 | 496.8 | 475.7 |
| Domestic Sales | 18.2% | 7.8% | 18.7% |
| Export | 81.8% | 92.2% | 81.3% |
| Long Steel Products | 2,194.3 | 1,463.6 | 2,682.4 |
| Domestic Sales | 74.7% | 69.2% | 81.8% |
| Export | 25.3% | 30.8% | 18.2% |
| Flat Steel Products | 463.1 | 262 | 475.6 |
| Domestic Sales | 96.8% | 86.7% | 79.7% |
| Export | 3.2% | 13.3% | 20.3% |
| Forgings | 121.0 | 76.4 | 180.9 |
| Domestic Sales | 74.5% | 60.1% | 53.8% |
| Export | 25.5% | 39.9% | 46.2% |
| Stampings | 188.9 | 136.8 | 236.1 |
| Domestic Sales | 92.6% | 85.5% | 84.9% |
| Export | 7.4% | 14.5% | 15.1% |
| Wire Products | 722.4 | 473.2 | 891.5 |
| Domestic Sales | 79.1% | 76.5% | 79.4% |
| Export | 20.9% | 23.5% | 20.6% |
| Other | 597.6 | 189.1 | 202.8 |
| Domestic Sales | 94.7% | 88.1% | 89.6% |
| Export | 5.3% | 11.9% | 10.4% |
| Total | 5,586.2 | 3,143.3 | 5,164.1 |
| Domestic Sales | 67.2% | 63.2% | 74.9% |
| Export | 32.8% | 36.8% | 25.1% |

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 2010.

| Use by Industry | Metal Works, Wire Products Plants | Pipe Factories | Construction | Railway Engineering | Railway Construction, Repair | Power Generation | Other Industries[1] |
|---|---|---|---|---|---|---|---|
| Semi-Finished Steel Products | 92.2% | 3.9% | 0.7% | 1.4% | 0.0% | 0.0% | 1.8% |
| Long Steel Products | 2.6% | 1.3% | 40.5% | 10.0% | 0.7% | 0.1% | 44.7% |
| Flat Steel Products | 5.5% | 26.1% | 18.8% | 10.3% | 1.6% | 0.2% | 37.6% |
| Forgings | 2.2% | 67.0% | 0.0% | 16.9% | 0.0% | 0.0% | 13.9% |
| Stampings | 0.2% | 0.0% | 0.0% | 94.5% | 0.3% | 0.1% | 4.9% |
| Wire Products | 11.5% | 0.6% | 19.8% | 7.8% | 5.4% | 0.3% | 54.7% |

(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.

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 2010, 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 71 storage sites in 46 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 1,397 employees as of December 31, 2010.

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 active wholesales offices in Liechtenstein, Belgium, Switzerland and Singapore.

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. 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 84.8% of overall domestic crude steel output in 2010, according to Metal Expert.

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

*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 largest steel manufacturer by volume on a consolidated basis, accounting for 17.3% of Russia s total commodity steel products output (including long products, flat products, and semi-finished products) in 2010. Evraz Group focuses on the production of long products, including rebars, wire rods and profiled rolled products (such as rails, beams and channels). Evraz Group also controls iron ore producers 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 14.7% of the volume of Russian commodity steel production in 2010. The company produces primarily flat products (hot-rolled and cold-rolled), including galvanized products. NLMK exported 70.1% of its products in 2010. 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 2.8% share in domestic commodity steel products output in 2010.

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*Magnitogorsk Iron & Steel Works OAO* ( **MMK** ) is Russia s third-leading steel manufacturer by volume, accounting for 17.2% of the volume of Russian commodity steel products output in 2010. MMK s product mix is comprised mostly of flat products, representing 87.6% of its commercial steel products output (including semis) in 2010. Domestically, MMK controls a significant portion of the supplies to the oil and gas and automotive sectors. MMK exported 37.8% of its output in 2010. Its production facilities are located in Magnitogorsk in the southern Urals.

*Severstal OAO* had a 17.0% share by volume of Russian commodity steel products output in 2010. 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 30.3% of Russia s total flat products output. Domestic sales accounted for 55.1% of Severstal s output in 2010, 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 8.4% share of Russian commodity steel products output. OEMK produces only long products, and Ural Steel produces both long and flat products. Metalloinvest exported 64.7% of its commodity steel production in 2010. 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 26.9% of total Russian specialty steel output by volume in 2010, 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 product category, our primary products and our market positions by production volume in 2010 were as follows, according to Metal Expert:

*Reinforcement bar ( rebar )* In rebar, we compete in the 6-40 millimeters range. In 2010, the largest domestic rebar producers were Evraz Group (29.3%), Mechel (27.8%), NLMK-Long steel (20.3%) and Severstal (6.2%). From August 14, 2007 to December 31, 2010, the Russian domestic market for rebar was protected from Ukrainian imports by an import quota. The quota had been imposed by agreement between Russia and Ukraine as the result of a review of the countervailing import tariff which was in force until July 14, 2007. The agreement expired on January 1, 2011.

*Wire rod* There were five major producers of wire rod in Russia in 2010: Mechel (39.8%), Evraz Group (19.2%), NLMK-Long steel (14.7%), Severstal (13.8%) and MMK (12.4%).

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

According to 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 2010, producing 14.8% of the total Russian output by volume, and we had significant shares of Russian 2010 production volumes of stainless long products (41.7%), tool steel (32.0%) and high-speed steel (58.7%).

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The following tables set forth additional information regarding our 2010 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. | 5,040.3 | 33.1% |
| Mechel OAO | 3,228.3 | 21.2% |
| NLMK-Long steel OOO | 1,423.5 | 9.3% |
| MMK OAO | 1,065.1 | 7.0% |
| Severstal OAO | 982.2 | 6.4% |
| Metalloinvest Management Company OOO | 912.1 | 6.0% |
| Other | 2,584.4 | 17.0% |
| Total | 15,235.9 | 100% |

Source: Metal Expert.

*Long products Wire rod*[1]

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel OAO | 1,028.6 | 39.8% |
| Evraz Group S.A. | 496.2 | 19.2% |
| NLMK-Long steel OOO | 379.2 | 14.7% |
| Severstal OAO | 356.4 | 13.8% |
| MMK OAO | 321.4 | 12.5% |
| Total | 2,581.8 | 100% |

Source: Metal Expert.

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

*Long products Rebar*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Evraz Group S.A. | 1,510.2 | 29.3% |
| Mechel OAO | 1,431.8 | 27.8% |
| NLMK-Long steel OOO | 1,044.3 | 20.3% |
| Severstal OAO | 321.8 | 6.2% |
| MMK OAO | 160.5 | 3.1% |
| Metalloinvest Management Company OOO | 3.9 | 0.1% |
| Other | 683.0 | 13.2% |
| Total | 5,155.5 | 100% |

Source: Metal Expert.

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*Flat stainless steel*

| Manufacturer | Production (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Mechel OAO | 45.6 | 75.9% |
| VMZ Red October | 8.9 | 14.8% |
| Severstal OAO | 4.0 | 6.6% |
| MMZ Hammer & Sickle | 0.4 | 0.6% |
| Other | 1.2 | 2.1% |
| Total | 60.1 | 100% |

Source: Metal Expert.

*Wire products*

| Manufacturer | Production (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Mechel OAO | 587.3 | 36.5% |
| Severstal-Metiz OAO | 391.5 | 24.3% |
| MMK-Metiz OAO | 234.4 | 14.6% |
| NLMK-Long steel OOO | 218.5 | 13.6% |
| Evraz Group S.A. | 138.3 | 8.6% |
| Other | 37.9 | 2.4% |
| Total | 1,608.0 | 100% |

Source: Prommetiz, manufacturers data.

*Wire products Spring wire*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|

| | (In thousands of tonnes, except for percentages) | |
|---|---|---|
| Mechel OAO | 43.0 | 57.0% |
| Severstal-Metiz OAO | 25.3 | 33.5% |
| MMK-Metiz OAO | 7.1 | 9.5% |
| Total | 75.4 | 100% |

Source: Manufacturers data.

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*Wire products High-tensile wire*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel OAO | 59.1 | 49.5% |
| Severstal-Metiz OAO | 52.1 | 43.6% |
| MMK-Metiz OAO | 8.3 | 6.9% |
| Total | 119.5 | 100% |

Source: Manufacturers data.

The following tables set forth additional information on our market shares in Romania for various categories of steel products in 2010.

*Long products Rebar*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel companies (Mechel Targoviste, Mechel Campia Turzii, Ductil Steel) | 467.8 | 94.4% |
| Otelinox Targoviste | 27.8 | 5.6% |
| Total | 495.6 | 100% |

*Wire rod*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel companies (Mechel Campia Turzii, Ductil Steel) | 139.7 | 100% |
| Total | 139.7 | 100% |

*Sections, bars (profiles)*

| Manufacturer | Production | Market Share by Production Volume |
|---|---|---|
| | (In thousands of tonnes, except for percentages) | |
| Mechel companies (Mechel Targoviste, Laminorul Plant) | 218.0 | 66.4% |
| ArcelorMittal Hunedoara | 46.0 | 14.0% |
| TMK-SCRresita | 64.3 | 19.6% |
| Total | 328.3 | 100% |

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*Cold-drawn wire*

| Manufacturer | Production (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Mechel companies (Mechel Campia Turzii, Ductil Steel) | 44.2 | 69.9% |
| Metalicplas Dej | 2.5 | 4.0% |
| Dan Steel Beclean | 14.7 | 23.3% |
| Sarme si Cabluri Harsova | 0.8 | 1.3% |
| Cord Buzau | 1.0 | 1.5% |
| Total | 63.2 | 100% |

*Galvanized wire*

| Manufacturer | Production (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Mechel companies (Mechel Campia Turzii, Ductil Steel) | 50.4 | 58.6% |
| Metalicplas Dej | 2.7 | 3.1% |
| Dan Steel Beclean | 25.1 | 29.2% |
| Sarme si Cabluri Harsova | 7.8 | 9.1% |
| Total | 86.0 | 100% |

*Welded mesh*

| Manufacturer | Production (In thousands of tonnes, except for percentages) | Market Share by Production Volume |
|---|---|---|
| Mechel companies (Ductil Steel, Mechel Campia Turzii) | 49.3 | 24.3% |
| Metalicplas Dej | 21.3 | 10.5% |
| Dan Steel Beclean | 37.3 | 18.4% |
| Other | 94.7 | 46.8% |

| | | |
|---|---|---|
| Total | 202.6 | 100% |

***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 2010, our production facilities used 4.8 million tonnes of coking coal concentrate (including 3.3 million tonnes used by Mechel-Coke and 1.5 million tonnes used by Moscow Coke and Gas Plant), and 65% of total usage was sourced internally. Coke is used both in pig iron production at Chelyabinsk Metallurgical Plant and in our ferroalloys production. In 2010, we produced and internally used approximately 2.6 million tonnes of coke in our production facilities and produced and sold another approximately 1.3 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 2010, our steel-making operations used 6.3 million tonnes of iron ore feed, approximately 34% in the form of pellets and 66% in the form of sinter, and we internally sourced 8.6% of our total iron ore concentrate requirements during this period. Korshunov Mining Plant supplied our

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steel segment with 539 thousand tonnes of iron ore concentrate in 2010. Iron ore concentrate is converted into sinter at Chelyabinsk Metallurgical Plant. We purchase most of the remaining part of our iron ore feed from Russian domestic suppliers such as Karelsky Okatysh and Vysokogorsky GOK under annual contracts with monthly adjustments of prices and volumes, and Mikhailovsky GOK under monthly and quarterly contracts on market terms.

We produce 62% of steel in basic oxygen furnaces. In steel making, ferrous scrap is used in the composition of feedstock, and we are approximately 20% self-sufficient in this raw material, which amounts to 431,010 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 2010, we used nickel sourced from Norilsk Nickel and Ufaleynickel in the production of stainless and other specialty steels. In 2010 our production facilities used 6,702 tonnes of nickel (including 3,885 tonnes at Chelyabinsk Metallurgical Plant, 1,609 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 1,208 tonnes at Izhstal) of which 62% was supplied by ferronickel produced at Southern Urals Nickel Plant and 38% was purchased from third parties.

In 2010, our production facilities used 27,319 tonnes of ferrosilicon (including 25,949 tonnes at Chelyabinsk Metallurgical Plant, 385 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 985 tonnes at Izhstal), almost all of which was supplied by Bratsk Ferroalloy Plant.

In 2010, our production facilities used 28,530 tonnes of ferrochrome (including 21,290 tonnes at Chelyabinsk Metallurgical Plant, 1,562 tonnes at the Chelyabinsk branch of Urals Stampings Plant and 5,677 tonnes at Izhstal) of which 67% was supplied by Tikhvin Ferroalloy Plant and 33% was purchased from third parties.

We internally source all of our limestone requirements from our Pugachev quarry. In 2010, we used approximately 1.3 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 2010, our steel and ferroalloy operations consumed approximately 4.4 billion kWh of electricity, of which 2.1 billion kWh was used at Chelyabinsk Metallurgical Plant, 2.3 billion kWh was used at other Russian facilities and 0.8 billion kWh was used at our Eastern European plants. Chelyabinsk Metallurgical Plant, Moscow Coke and Gas Plant and Mechel-Energo have power co-generation facilities, which produced 1.9 billion kWh of electricity for internal consumption in 2010, yielding 27% self-sufficiency overall for our group (including mining operations), which consumed 6.8 billion kWh of electricity in 2010. The balance was purchased from local utilities. 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 2010, we consumed 2,480.6 million cubic meters of blast furnace gas, 550.7 million cubic meters of coke gas and 1,050.4 million cubic meters of natural gas. In 2010 Southern Kuzbass Power Plant and Toplofikatsia Rousse consumed 1.8 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 8.2% of its water needs from a local river and the rest from recycled water. Vyartsilya Metal Products Plant sources 100% of its water needs from a local river. Southern Urals Nickel Plant sources 34.8% of its water needs through recycling, 65.2% from a

local river. Mechel Targoviste sources 2% of its production water needs from a local river and the rest is recycled/recirculated water. To date, water consumption from local rivers has not resulted in any significant environmental issues, although we make no

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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 2010, approximately 2.1% of our steel segment export sale revenues were derived from sales of steel products that were subject to import restrictions. We describe below the main applicable trade restrictions in our key markets.

*European Union*

Our steel sales to the European Union in 2010 were approximately $940.5 million, or 16.8% of our total steel segment revenues. The Russian government and the European Union have an export quota system in place whereby Russian exports to the European Union 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 2010, the quota covered approximately 8.9% of our steel segment products exported to the European Union.

In 2010, the total E.U. quota for Russian steel was 3,370 thousand tonnes. Initially, we received 335.4 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 372.6 thousand tonnes. We have used 36% of our individual quotas both in long and flat steel products. The European Union-Russia Steel Agreement for 2011 provides for the total Russian quota to be 3,264 thousand tonnes. Our quota is set at approximately 347.2 thousand tonnes, which includes 21.5 thousand tonnes for flat products and 325.7 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 113.6 thousand tonnes for 2011.

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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 European Union 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. 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 ferroalloy segment products.

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | (In thousands of tonnes) | | |
| Ferrosilicon | 89.9 | 86.0 | 91.3 |
| Ferrochrome | 81.4 | 82.6 | 58.5 |
| Nickel | 16.8 | 15.6 | 16.2 |

***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

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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.

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

| License Area | License Holder | License Expiry Date | Status | Area (sq. km) | Year Production Commenced |
|---|---|---|---|---|---|
| Buruktal | Southern Urals Nickel Plant | December 2012 | In production | 11.9 | 1969 |
| Sakhara | Southern Urals Nickel Plant | April 2013 | In production | 2.2 | 1994 |

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

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | Tonnes | Grade (% Ni) | Tonnes | Grade (% Ni) | Tonnes | Grade (% Ni) |
| | (In thousands of tonnes)[1] | | | | | |
| Sakhara ore production | 845.3 | 1.00% | 964.5 | 1.00% | 1,025.7 | 1.07% |
| Buruktal ore production | 2,014.3 | 1.06% | 1,679.3 | 1.07% | 1,436.4 | 1.05% |
| Total ore production | 2,859.6 | 1.04% | 2,643.8 | 1.04% | 2,462.1 | 1.06% |
| Nickel production | 16,798.6 | | 15,565.0 | | 16,158.0 | |

(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

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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.

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 |
|---|---|---|---|---|---|
| Voskhod | Voskhod-Oriel | October 2029 | In production | 1.54 | 2008 |
| Shevchenko | Kazakhstansky Nickel Mining Company | March 2017 | Feasibility study | 103.8 | n/a |

***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. After completion of additional exploration at the deposit in 2011, we plan to start mining quartzite to be supplied to our Bratsk Ferroalloy Plant.

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 |
|---|---|---|---|---|---|
| Uvatskoye | Bratsk Ferroalloy Plant | July 2033 | Exploration | 18.21 | n/a |

***Ferroalloy 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 megawatts each. The plant can produce up to 17,500 tonnes per year of low-ferrous ferronickel in pure nickel equivalent.

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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Low-ferrous ferronickel production | 17.4 | 96.3% | 1 |

Southern Urals Nickel Plant produced 16,799 tonnes of nickel in 2010.

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*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. 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%. The contracts total value exceeds 1.9 billion rubles. The reconstruction will take place during 2011-2012.

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 2010 | Capacity Utilization Rate in 2010 | Planned Increase (2011-2013) |
|---|---|---|---|
| | (In thousands of tonnes, except for percentages) | | |
| Ferrosilicon production | 87.2 | 102.7% | 34.8 |

Bratsk Ferroalloy Plant produced 89,920 tonnes of ferrosilicon in 2010.

*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 megavolt-amperes 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.

***Sales of ferroalloy 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.

| Revenues | 2010 Amount | 2010 % of Revenues | 2009 Amount | 2009 % of Revenues | 2008 Amount | 2008 % of Revenues |
|---|---|---|---|---|---|---|
| | (In millions of U.S. dollars, except for percentages) | | | | | |
| Nickel[(1)] | 251.6 | 55.3% | 190.6 | 52.4% | 281.3 | 64.8% |
| Ferrosilicon | 91.8 | 20.2% | 66.6 | 18.4% | 79.3 | 18.2% |
| Ferrochrome | 93.6 | 20.6% | 92.8 | 25.5% | 68.2 | 15.7% |
| Other | 18.2 | 4.0% | 13.7 | 3.7% | 5.2 | 1.3% |
| Total | 455.2 | 100% | 363.7 | 100% | 434 | 100% |

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

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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)] | 2010 | 2009 | 2008 |
|---|---|---|---|
| Russia | 24.2% | 14.6% | 23.0% |
| Other CIS | 1.3% | 1.7% | 0.1% |
| Europe | 61.5% | 69.6% | 74.4% |
| Asia | 8.8% | 12.3% | 1.4% |
| Middle East | 0.1% | 0.0% | 0.0% |
| United States | 4.0% | 1.5% | 1.1% |
| Other | 0.2% | 0.3% | 0.0% |
| 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 2010, our ferroalloys segment sales outside of Russia were principally to Europe. Sales in Europe accounted for 61.5% 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 60.5% of our ferroalloys segment sales in 2010.

| Customer | % of Total Ferroalloys Segment Sales | Product | % of Total Products Sales |
|---|---|---|---|
| Outokumpu Rossija Oy | 32.6% | Nickel | 58.9% |
| Glencore | 14.2% | Nickel | 25.7% |
| Scanalloys, Ltd. | 7.3% | Chrome | 34.0% |
| | | Ferrosilicon | 1.7% |
| Stratton Metals, Ltd. | 3.2% | Nickel | 5.8% |
| Severstal | 3.2% | Ferrosilicon | 16.0% |

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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.

| **Products** | **2010** | **2009** | **2008** |
|---|---|---|---|
| | **(In millions of U.S. dollars, except for percentages)** | | |
| Nickel[(1)] | 251.6 | 190.6 | 281.3 |
| Domestic Sales | 7.4% | 2.6% | 6.6% |
| Export | 92.6% | 97.4% | 93.4% |
| Ferrosilicon | 91.8 | 66.6 | 79.3 |
| Domestic Sales | 73.8% | 47.3% | 92.0% |
| Export | 26.2% | 52.7% | 8.0% |
| Ferrochrome | 93.6 | 92.8 | 68.2 |
| Domestic Sales | 7.8 | | |